

SECTION 400

CHILD DEVELOPMENT AND **ADULT EDUCATION PROGRAMS** **GENERAL AND SPECIFIC AUDIT** **REQUIREMENTS**

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1998-99

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1998-99
GENERAL
REQUIREMENTS

PROFESSIONAL AND GOVERNMENTAL STANDARDS

401

I. OBJECTIVE

All Child Development and Adult Basic Education contractors who are required to submit an annual audit report in accordance with Calif. Dept. of Education (CDE)'s Audit Guide for Child Development, Nutrition and Adult Basic Education Programs shall be responsible for obtaining the required financial and compliance audits of the organization. **Audits pursuant to Education Code Section 8448 shall be audits of the contractor rather than an audit of individual contracts or programs.**

The report shall comply with all AICPA statement on auditing standards in effect for the period under audit. If the contractor expends federal funds over \$300,000 the audit must conform to the Single Audit Act Amendments of 1996, Government Auditing Standards issued by the Comptroller General of the United States, (May 1999 Revision), OMB Circulars, the Department of Agriculture's Uniform Federal Assistance Regulations (7CFR Part 3015), CNFDD Management Bulletin No. 97-601, Adult Education Act, Title 34, CFR, Chapter 4, part 461. (See **Section 300** for Single Audit Requirements).

II. GENERAL AUDIT PROCEDURES

The Audit shall be conducted in accordance with all laws and regulations in effect during the audit period. They shall include, but not be limited to, all Federal, State and local laws, and the specific funding terms, conditions, and assurances of the contracts and grants. If a conflict arises, the auditor should confirm with the State which regulation/statement takes precedence.

The auditor shall reflect acceptance of program costs or question those costs that, in the auditor's professional judgement are not reimbursable with state contract funds. **The State considers all variances between the contract requirements and audited results to be material.** The auditor should report these variances as questioned costs in the Management Letter or Schedule of Findings, Questioned Costs and Recommendations. The State will determine whether or not the variances are diminutive in nature, and allow the costs. Effective for fiscal years beginning after December 15, 1995, the auditor is required to present the basic financial statements of the agency in accordance with Financial Accounting Standards Board Statement No. 117. **A combining statement of financial position (balance sheet), and combining statement of activities (statement of revenue, expenditures) and changes in net assets, which specifically identifies all Child Development and Adult Basic Education program contract funds, must be included in the supplementary information of the audit report.**

GENERAL CONSIDERATIONS**405****I. OBJECTIVE**

General accepted auditing standards for fieldwork require that the auditor obtain a sufficient understanding of internal control to plan the audit and to determine the nature, timing, and extent of test to be performed. The auditor performs tests and procedures to: (1) understand the design of controls relevant to an audit of financial statements, and (2) determine whether the controls have been placed in operation.

Generally Accepted Government Auditing Standards (GAGAS) requires that the auditor should also obtain an understanding of the methods an agency uses to process accounting information because such methods influence the design of internal control. The extent to which computer systems are used in significant accounting applications, as well as the complexity of that processing, may also influence the nature, timing and extent of audit procedures. Auditors should document their understanding of the components of an agency's internal control related to computer applications that process information used in preparing the agency's financial statements.

II. GENERAL AUDIT PROCEDURES

As the auditor, you must document the understanding of the entity's internal control elements: (1) Control Environment (2) Risk Assessment (3) Communication (4) Monitoring (5) Financial Reporting obtained in order to plan the audit. Documentation includes questionnaires, flow charts, memorandums, etc.

After understanding and documenting the understanding of the internal control structure, the auditor then assesses and documents the level of control risk.

If the assessed level of control risk is at the maximum level, then documentation of the auditor's conclusion that (1) the control risk is at maximum level and, (2) consideration that the planned audit procedures are designed to achieve audit objectives and to reduce audit risk to an acceptable level is required. There is no need to document the basis for that conclusion. However, if it is found that control weaknesses exist, they should also be documented. If the level of control risk is assessed at below the maximum level, the auditor must also document the basis for that conclusion. Assessing control risk at below the maximum level involves:

- A. Identifying specific internal control structure policies and procedures relevant to specific assertions that are likely to prevent or detect material misstatements and fraud in those assertions; and
- B. Performing tests of controls to evaluate the effectiveness of such policies and procedures.

GENERAL CONSIDERATIONS**405****II. GENERAL AUDIT PROCEDURES (continued)**

GAGAS requires the auditor to document the assessment of control risk for assertions significantly dependent upon computerized information systems. If the auditor assesses control risk at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of financial statements, the working papers should document the basis for that conclusion by addressing (1) the ineffectiveness of the design and/or operation of the controls and (2) the reasons why it would be inefficient to test the controls.

SAS No. 82 has added specific requirements for assessing and documenting fraud risk.

Comprehensive comments and recommendations related to applicable weaknesses and problems in controls and procedures should be promptly discussed with the appropriate level of management and subsequently presented in the audit report. Management letters and reports are required to be submitted as part of the audit report.

FINANCIAL PERFORMANCE AND DISCLOSURE**410****I. OBJECTIVE**

Determine whether or not the agency's accounting for the Child Development and Adult Basic Education program contract funds is supported by an accounting system that can adequately disclose the program's financial performance in accordance with Generally Accepted Accounting Principles (GAAP).

II. GENERAL AUDIT PROCEDURES

Based on the review of the agency's internal controls and tests of the accounting records, determine whether or not the agency's accounting system includes all the procedures necessary to:

- A. Identify receipts and expenditures of Child Development and Adult Basic Education program contract funds separately from other contract funds;
- B. Accumulate and record all expenditures by fiscal year and the cost categories provided in the California School Accounting Manual and in the audit report;
- C. Comment on any problems noted in the accounting system in the Findings, Questioned Costs Recommendation section of the audit report or, if immaterial, in the Management Letter; and
- D. Record accounting information in a double-entry accounting system format and maintain adequate documentation of all transactions.

COMPUTERIZED SYSTEMS**411****I. OBJECTIVE**

An auditor should become familiar with the agency's computer or EDP system. An understanding of the computer controls, including 1) the organizational controls. 2) authorization procedures (which computer functions, if any, have restrictions on employee access). 3) operational controls; will assist the auditor in determining the extent the computer generated data will be relied upon during the audit and also in determining the tests to be performed.

COMPUTERIZED SYSTEMS**411****II. GENERAL AUDIT PROCEDURES**

Documentation of the understanding of the Agency's computer or EDP system should be included in the audit working papers in accordance with SAS 48. Any comments or problems regarding the computer/EDP system, the organization flow, or the specific operational controls should be included in the Management Letter. If the agency is using a general ledger computer software to maintain their financial reporting system, the program should be tested for accuracy in the classification of account balances and the posting of transactions in the financial statements.

ADVANCES**415****I. OBJECTIVE**

The CDE advances funds for the first two months of the contract period. These advances do not always get released to the contractor on July 1, of the contract year. As such, the issue of having advance State funds does not always exist. It is not unusual for the contractor to utilize unrestricted funds to cover CDE contracts until the CDE releases the funds to the agency. Interest income earned on funds received on CDE funds must be reported to the CDE in the Audited Final Reimbursement Calculations (AFRC) report. In order for the interest income to be retained, it must be earned in accordance with the contract terms.

II. GENERAL AUDIT PROCEDURES

See **INTEREST** for audit procedures on interest earned on advances.

INTEREST**416****I. OBJECTIVE**

Contractors of Child Development and Adult Basic Education programs shall maintain a management system, which efficiently utilizes CDE funds. The contractor should apply procedures necessary to insure that funds are disbursed promptly on qualified expenses. State advances in excess of required disbursements should be maintained in an interest bearing account. Interest earned on CDE funds must be used on program expenditures. Any interest earned on CDE funds in excess of allowable expenditures as described in the contract will be returned to the CDE when the audit report is reviewed and closed by the CDE's Audits and Investigations Division (AID).

II. GENERAL AUDIT PROCEDURES

For selected grant programs, determine dates and amounts of advances, and compare to the dates the funds were disbursed and/or checks were presented to the bank for payment. For the same programs, evaluate the size of the balances in relation to the program's needs. If interest is earned on advances, the interest must be allocated to the fund of the program giving the advance.

MATERIALS DEVELOPED WITH CONTRACT FUNDS
(5 CCR §18.015)**417****I. OBJECTIVE**

Determine if the agency received revenues from sales of materials developed with Child Development and Adult Basic Education (ABE) Program Funding by reviewing the agency's revenue sources.

II. GENERAL AUDIT PROCEDURES

If applicable, verify that the use of these revenues were restricted to Child Development and ABE Programs in proportion to contract funding to other funding from sources used in their development.

If applicable, verify the materials developed with Child Development and ABE Program funding included in the following:

- 1) An acknowledgment of the use of CDE funds; and
- 2) A disclaimer that the materials do not necessarily reflect the position or policy of the CDE.

ENHANCED REFERRAL PROGRAM REVENUE/FEES**418****(Section 8214, Education Code) & (Section 18242 CCR Title 5)****I. OBJECTIVE**

Determine if the agency received revenues from Child Development's Enhanced Referral Program funding and whether or not fees were charged for referral services by reviewing the agency's revenue sources.

II. GENERAL AUDIT PROCEDURES

If applicable, verify that the use of these revenues were restricted to the Child Development Fund.

Verify that the material fees charged for referral services funded by CDE include only the following allowable sources:

- 1.) Recovery of printing and duplication costs;
- 2.) Costs of damaged or lost materials from the lending library or late fees; and
- 3.) Collection of fees for services provided by contractors who entered into separate contracts for resource and referral services with other entities such as cities, counties and private industry.

CALIFORNIA DEPT. OF EDUCATION FUNDS**420****I. OBJECTIVE**

Verify that all income due the agency was received or accrued within the contract period and deposited in the required Child Development and Adult Basic Education (ABE) Fund. The audited agency must apply all funds received to the proper programs only. The auditor must determine that the audited agency does apply all the funds to the Child Development and ABE Programs.

II. GENERAL AUDIT PROCEDURES

A. Determine if the total income generated from the operation of the **Center Based** programs include:

1. Parent fees both collected from all families, both certified (state eligible) and noncertified (non state eligible). Severely Handicapped (Handicapped), Child Protective Services, Federal Based Migrant, and State Preschool programs should not collect fees.

Other assets contributed by certified families, in cash or in kind, is prohibited, except under circumstances as described in the Funding Terms and Conditions and General and Program Assurances;

2. Grants, donations, gifts, etc.,
3. Child Nutrition Program; and
4. Interest earned on Contract funds.

B. Determine if the total income generated from the operation of the **Alternative payment** programs include:

1. Parent fees from subsidized families whether collected by the contractor or by the provider. This does not include co-payments made by the parent to providers for any amount over the maximum allowable under the contract.
2. Grants, donations, gifts, etc., and Child Nutrition Programs.
3. Interest earned on Contract funds.

CALIFORNIA DEPT. EDUCATION FUNDS**420****II. GENERAL AUDIT PROCEDURES (continued)**

C. Determine that the total income generated from the operation of the ABE program includes the following:

1. Student tuition fees,
2. Student registration fees,
3. Fees for student's books and instructional supplies,
4. Fees reimbursing costs,
5. Grants, donations and gifts, etc.,
6. Interest earned on contract funds,

The above is not all inclusive; for additional information, see the program's specific General and Program Assurances.

D. CDE's Fiscal Administration Services Division (FASD) can confirm the monies that an agency has been paid for Rent Subsidy, Child Care Food, State Meal, Maintenance of Effort and all Child Development and ABE Programs.

Confirmations are sent out automatically based on information from the agencies. If you do not receive a confirmation, you must request it in writing from FASD. A request must include, at a minimum, the following information:

1. Name of agency,
2. Program title,
3. Project and Contract number (if applicable),
4. Claim schedule number (per remittance advice examined),
5. Date of claim schedule,
6. Amount per claim, and
7. An envelope (with return postage) addressed to your audit firm.

The above is not all-inclusive; for additional information, see the program's specific Funding Terms and Conditions, downloadable from AID's web site.

CALIFORNIA DEPT. OF EDUCATION FUNDS**420****Additional Funding Sources****I. OBJECTIVE**

Establish that income from other sources has been reported properly and expended for purposes intended.

II. GENERAL AUDIT PROCEDURES

An agency may receive various kinds of income:

1. Interest Income: All interest earned on CDP and ABE contract funds must be reported to the state on the regular report forms. Interest earned on CDP and ABE contract funds shall be remitted to the CDE unless spent during the contract period on reimbursable costs and, except for Resource and Referral programs, and additional eligible children are served;
2. Restricted Program Income: Income received by a CDP and ABE wherein the donor restricts the use of the funds for goods or services defined as reimbursable by CDD and ABE to the extent expended in the current program year. Restricted program Income includes, but is not limited to, Nutrition Services' Food Subsidy, Nonfood Assistance, Transfer from child Development Serve Account, Donations, Net Fundraising Revenue, Other child development Program sharing Total costs, Audit Cost Reimbursement, Matching Funds, Rent Subsidy, JTPA Funds, Revenue Sharing, and subsidized children's family fees (the agency has to earn the fees in order to retain them). It should be noted that the description of restricted income above is broken down into two parts in the AFRC.
3. Other Restricted Income: Income received by a CDP and ABE wherein the donor restricts the use of the funds to nonreimbursable costs or for other than current year program operations.

Many agencies contracting with CDE and ABE seek funds from other funding sources. These funds come from other governmental or nonprofit agencies that usually require the submission of budgets listing all anticipated program expenditures. In addition, general practice requires that the expenditures be in accordance with the contracted budget or approved budget modifications.

CALIFORNIA DEPT. OF EDUCATION FUNDS**420****II. GENERAL AUDIT PROCEDURES (continued)**

Furthermore, if an agency makes a statement that the income received from a particular source was to be used in any manner it wished, the auditor should require the agency to provide copies of the contract for review by the auditor so that such income can be properly identified in the audit. Funds received from CDD and ABE would be supplanting restricted program funds if money received from local sources was not used **first**.

CALIFORNIA DEPT. OF EDUCATION FUNDS**420****Continued Funding Sources/Resources:****(CCR, Title 5, Division 19, Chapter 1, Article 5, Section 18010)****I. OBJECTIVE**

To determine that CDD contractors, that intend to accept an offer to continue services in the subsequent contract period, respond to a continued funding application request from the CDD in accordance with the instructions and timelines specified in the request.

II. GENERAL AUDIT PROCEDURES**A. Subsequent Events/Contingencies:**

- 1.) Verify that contractor has responded within the timelines specified in the continued funding application.
- 3) Determine what the adverse effects are from contractor's failure to respond within the timelines specified in the continued funding application request and accordingly in the audit report and financial statements.

B. Additional funding Information:**Allocation of Agency Funds – FY 1998-99**

The form is to be completed by agencies who serve multiple counties and all agencies in Los Angeles County. The form is designed to gather information necessary to establish an equitable distribution of future funding allocations. With the exception of Los Angeles County, **the form is not completed if the agency's service delivery area is within one county.** Agencies with service delivery areas anywhere in Los Angeles County must complete the form.

C. Resources:

The complete application package for continued funding is mailed annually to the contractor by the CDD.

ALLOCATION OF AGENCY FUNDS

Fiscal Year 1998 - 1999

Agencies that serve multiple counties or agencies whose county of service differs from the county where they are headquartered must complete this form. **LOS ANGELES COUNTY:** Please report by sub-regions as defined by the attached list of zip codes. If your agency administers more than four contracts, please duplicate this form.

VENDOR NAME: _____

VENDOR NUMBER: _____ AGENCY'S COUNTY: _____

CONTRACT NUMBER _____			CONTRACT NUMBER _____		
County/Region (L.A.)	Amount (\$)	% of MRA	County/Region (L.A.)	Amount (\$)	% of MRA
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
Total:	\$ _____	100%	Total:	\$ _____	100%

CONTRACT NUMBER _____			CONTRACT NUMBER _____		
County/Region (L.A.)	Amount (\$)	% of MRA	County/Region (L.A.)	Amount (\$)	% of MRA
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
Total:	\$ _____	100%	Total:	\$ _____	100%

If FY 1998-99 was not a typical year, how might the allocation differ in FY 2000-01?

Agency Contact: _____ Date: _____

(Name)

Title: _____ Telephone Number: _____

If you have any questions regarding this form, please contact **CYNTHIA ROBINSON**, Child Development Fiscal Services Unit, at (916) 324-4531.

VENDOR NAME: _____

VENDOR NUMBER: _____ AGENCY'S COUNTY: _____

CONTRACT NUMBER _____			CONTRACT NUMBER _____		
County/Region (L.A.)	Amount (\$)	% of MRA	County/Region (L.A.)	Amount (\$)	% of MRA
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
Total:	\$ _____	100%	Total:	\$ _____	100%

CONTRACT NUMBER _____			CONTRACT NUMBER _____		
County/Region (L.A.)	Amount (\$)	% of MRA	County/Region (L.A.)	Amount (\$)	% of MRA
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
_____	\$ _____	_____ %	_____	\$ _____	_____ %
Total:	\$ _____	100%	Total:	\$ _____	100%

If FY 1998-99 was not a typical year, how might the allocation differ in FY 2000-01?

Agency Contact: _____ Date: _____
(Name)
Title: _____ Telephone Number: _____

If you have any questions regarding this form, please contact **CYNTHIA ROBINSON**, Child Development Fiscal Services Unit, at (916) 324-4531.

CALIFORNIA DEPT. OF EDUCATION FUNDS

420

Continued Funding Sources/Resources:

(CCR, Title 5, Division 19, Chapter 1, Article 5, Section 18010)

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional Testing required? Yes No

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****(Section 8277, Education code)****I. OBJECTIVE**

To determine that Capital Outlay Funds received by the agency benefit children most needing child care and development programs in facilities located in geographic areas with no other available enrollment slots in existing subsidized and non-subsidized child care and development facilities.

II. GENERAL AUDIT PROCEDURES

- A. Verify that a capital outlay funding is used solely for purposes of renovation and repair of existing buildings.
- B. Determine that the maximum allocation amount of one thousand dollars (\$1,000) to family day care homes is used solely for minor capital outlay purchases for the repair and renovation of homes for the purpose of insuring compliance with state and local health and safety standards.
- C. **Revolving Loan Fund; Interest Free loans:**

Determine the following:

- 1. The maximum allocation amount of two thousand dollars (\$2,000) or 2 percent, whichever is greater, of the agency's contract amount, is used solely to renovate and repair child care facilities to meet state and local health safety standards;
- 2. No interest is charged and/or paid by the agency;
- 3. Repayments on loan(s) by the agency to CDE are made within one year after allocation of the loan;
- 4. If in lieu of payments made by the agency in (3) above, CDE reduces the agency's contract amount for child care services by at least the level of normal depreciation allowance on the renovation or repair, calculated by the straight line method of depreciation; and
- 5. The entire balance of a loan is paid back to the CDE immediately if the agency ceases operation of services to children subsidized, or if the CDE fails to renew the agency's contract, or if ten years have elapsed from the date of the allocation.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****D. Child Care and Development Facilities Loan Guaranty Fund (Section 8277.5 Education Code) (See Schedule A, Fact Sheet 1999-2000 General Requirements)**

CDE transfers state funds appropriated for child care facilities enhancement and the proceeds from any future sales of tax-exempt child care and development bonds into this fund.

Determine the following:

1. These are used for the purpose of guaranteeing private sector loans to sole proprietorships, partnerships, proprietary and nonprofit corporations, and local public agencies for the purchase, development, construction, expansion, or improvement of licensed child care and development facilities, and for the purpose of administering the guarantees of these loans. The loan guarantees shall be made by the Department of Housing and Community Development (Department) or by a public or private entity approved by the Department, in accordance with the priorities established by Department. The full faith and credit of the State of California is not pledged to the Child Care and Development Facilities Loan Guaranty Fund and the state is not liable for loan defaults that exceed the amount of funds deposited with the Child Care and Development Facilities Loan Guaranty Fund.
2. A loan guarantee may not exceed 80 percent of the principal and interest amount of a private sector loan guaranteed by the fund and shall be used only to guarantee a private sector loan for the purchase, development, construction, expansion, or improvement of facilities described below and for related equipment and fixtures, but shall not be used primarily to refinance an existing loan or for working capital, supplies, or inventory. A loan guarantee for improvements shall be limited to those improvements necessary for any of the following purposes:
 - i) To obtain, maintain, renew, expand, or revise a child care license.
 - ii) To make necessary health and safety improvements.
 - iii) To make seismic improvements.
 - iv) To provide access for disabled children.
3. The aggregate amount of outstanding loan guarantees shall not exceed four times the amount in the Child Care and Development Facilities Loan Guaranty Fund.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)**

4. A loan guarantee made pursuant to this section shall be for the term of the loan or 20 years, whichever is less. Security for the guaranteed loan may include a deed of trust, personal guarantees of shareholders and partners in the case of proprietary borrowers, or other reasonably available collateral. These liens may be subordinated to other liens. Default provisions and other terms shall be reasonable and designed to obtain prompt and full repayment of the guaranteed loan by the borrower. Reasonable loan guarantee fees and points may be charged applicants and borrowers by any public or private entity approved by Department, as described in regulations adopted by the Department.
5. A loan guarantee made pursuant to this section shall only be granted if the applicant agrees to provide child care in a facility for a period of 20 years or the term of the guaranteed loan, whichever is less.
6. A loan guarantee made pursuant to this section terminates 120 days after the lender's receipt of notice that the recipient has either ceased making payments or providing child care in the facility for which the loan was made, or both, unless the lender takes action to accelerate the loan. If a family day care provider ceases to operate, but retains its three-year-license, the provider shall give notice to department and the lending institution of its intention to resume offering child care services for the term of its license, or shall provide notice of its intention to cease providing child care services. The Child Care and Development Facilities Loan Guaranty Fund is not liable for a default occurring after the loan guarantee has ended.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****E. Child Care and Development Facilities Direct Loan Fund (Section 8277.5 Education Code) (See Schedule A, Fact Sheet, 1999-2000 General Requirements)**

CDE transfers state funds appropriated for child care facilities enhancement and the proceeds derived from any future sales of tax-exempt child care and development facilities bonds into this fund.

Determine the following:

1. These funds are used for the purpose of making subordinated loans directly or through a public or private entity approved by the Department of Housing and Community Development (Department) to sole proprietorships, partnerships, proprietary and nonprofit corporations, and local public agencies for the purchase, development, construction, expansion, or improvement of licensed child care and development facilities, and for the purpose of administering these loans. Loans shall be made in accordance with the priorities established by the Department. The full faith and credit of the State of California is not pledged to the Child Care and Development Facilities Direct Loan Fund and the state is not liable for loan defaults that exceed the amount of funds deposited in the Child Care and Development Facilities Direct Loan Fund.
2. A loan made pursuant to this section may not exceed 50 percent of the total amount of investment for the purchase, development, expansion, or improvement of eligible child care and development facilities as described below and for related equipment and fixtures, but may not be used primarily to refinance an existing loan, for working capital, for supplies, or for inventory. A loan may not exceed 20 percent of the total amount of investment if the same facility is also utilizing a loan guarantee.

Investment means the total cost paid or incurred by the applicant in constructing, renovating or acquiring a facility. A loan for improvements shall be limited to those improvements necessary for any of the following purposes:

- i) To obtain, maintain, renew, expand, or revise a child care license.
- ii) To make necessary health and safety improvements.
- iii) To make seismic improvements
- iv) To provide access for disabled children.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)**

3. The term of a loan may not exceed 20 years. Security for the loan may include a deed of trust, personal guarantees of shareholders and partners in the case of proprietary borrowers, or other reasonably available collateral. These liens may be subordinated to other liens. The interest rate, payment provisions, late charges, and other terms may vary based on the ability of the borrower to repay the loan, but shall be reasonable and designed to obtain prompt and full repayment of the loan by the borrower. Reasonable loan fees and points may be charged to applicants and borrowers by public or private entity approved by the Department, or described in the regulations adopted by the Department.

F. Department Priorities

The Department of Housing and Community Development (Department) has priorities for selecting applicants that are eligible for the loan guaranty program and the direct loan program.

Determine that eligibility is based on the following:

1. Priority is given to facilities that primarily serve households with incomes not exceeding 75 percent of the local median income as determined from time to time by the United States Department of Housing and Urban Development, loan guarantees and direct loans. Eligible facilities shall include full-day and part-day child care and development facilities and family child care homes serving more than six children.
2. Loan guarantees and direct loans for family child care homes serving more than six children are limited to loans for repairs and renovation that are required to maintain license or, if the family child care provider is otherwise qualified for a license for more than six children, to repairs, renovations, and additions required to obtain a license for more than six children. A family child care home provider shall provide evidence from the community care licensing division that the repairs, renovations, or additions are required to maintain the license or obtain a license for more than six children. Loan guarantees and direct loans for family child care homes will not be made for the purpose of purchasing a home or any real property.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****G. CDE Program Priorities**

CDE provides program priorities that govern the ranking of applications by the Department.

Determine that priorities include, but are not limited to, the following:

1. Geographic priorities based on the extent of need for child care and development supply-building efforts in different parts of the state.
 - i) Not less than 30 percent of the loan guarantee and direct loan obligations shall benefit providers located in rural areas. If the amount of qualifying applications from rural providers is insufficient to satisfy requirement, the excess capacity reserved for rural to be made available to other qualified applications according to the policies and procedures of the Department. The remaining 70 percent of funds shall be available to rural or urban areas and other priorities in accordance with this subdivision.
 - ii) Rural communities defined by any county with fewer than 400 residents per square mile.
2. Age priorities based on the extent of need for children and development supply-building efforts for children of different age groups.
3. Income priorities based on the extent of need for child care and development supply-building efforts to benefit families transitioning to work or other lower income families.
4. Program priorities based on the extent of facilities needed among specific kinds of providers, including those that continue to administer state and federal funded child care and development programs administered by the CDE providers who have lost classrooms due to class size reduction or other state or local initiatives, or providers that need to expand to meet the needs of a child care initiative recipients of aid under chapter 3 (commencing with Section 11200) of Part 3 of Division 9 of the Welfare and Institution Code, or any successor program.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****G. CDE Program Priorities (continued)**

The department shall adopt regulations and establish priorities, forms, policies and procedures for implementing and managing the Child Care and Development Facilities Loan Guaranty Fund and the Child Care and Development Facilities Direct Loan Fund and making the loan guarantees a direct loans authorized hereunder consistent with priorities provided by the CDE. To the extent feasible, the Department shall use applicant fees and points to cover its administrative costs. The Department may utilize an amount of money from the Child Care and Development Facilities Loan.

Guaranty Fund and the Child Care and Development Facilities Direct Loan fund, as appropriated for reasonable administrative costs in any given fiscal year. Unless an appropriation for administrative costs is made in the annual Budget Act that exceeds the following limits, administrative expenditures shall not exceed 3 percent of the amount appropriated to each fund in the Budget Act of 1997.

The Department shall adopt regulations for serving family day care homes efficiently, including, but not limited to, making loans available from the Child Care and Development Facilities Direct Loan Fund to local micro enterprise loan funds and other lenders who may relend the funds in appropriate amounts to eligible family day care home providers or by authorizing a specified amount of guarantees of small loans by local micro enterprise loan funds and other lenders serving eligible family day care home providers.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****H. Lease of Relocatable Child Care and Development Facilities**

The State Allocation Board (board) is authorized to lease relocatable classrooms and facilities to qualified child care and development contracting and sub-contracting agencies and charge rent of one dollar (\$1) per year.

Determine the following:

1. The difference between the fair market value of the donated rental and \$1 is recorded as both a revenue and expense in accordance with accounting principles for non-profit entities.
2. The board requires lessees to undertake all necessary maintenance, repairs, renewal, and replacement to ensure that a project is at all times kept in good repair, working order, and condition. All costs incurred for this purpose are borne by the lessee.
3. The board requires each lessee to demonstrate that relocatable facilities are utilized solely for operation of child care and development programs.
4. No relocatable facilities shall be made available to a contracting agency unless the agency furnishes evidence, satisfactory to the board, that the contracting agency has no other facility available for rental, lease, or purchase in the geographic service area that is economically or otherwise feasible.
5. If at any time the board determines that a lessee's need for particular relocatable facilities which were made available to the lessee has ceased, the board may take possession of the relocatable facilities and may lease them to other eligible contracting agencies or, if there is no longer a need for the relocatable facilities, the board may dispose of them to public or private parties in the manner it deems to be in the best interests of the state.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****I. Relocatable Child Care and Development Facilities
(Section 8477, Education Code)**

It is the intent of the Legislature that funds be appropriated for the minor renovation and repair of publicly owned buildings as necessary to meet state licensing standards, and for the state purchase of relocatable child care and development facilities for the purpose of providing **extended day care services** pursuant to this article, for lease to qualifying agencies in geographic areas with no available child care and development facilities and, as to any child care and development facility acquired by a qualifying agency with funds not including state funds, for the purpose of reimbursement of initial utility service in installation costs. This section is applicable only to the proceeds from the sale of bonds allocated by the State Allocation Board.

No relocatable child care and development facility owned by the state shall be placed on privately owned land except in those areas of the state where the CDE determines there is no available space on publicly owned land and where there are no available child care and development facilities. CDE establishes qualifications to determine the eligibility of extended day agencies to lease relocatable facilities under this section.

CDE adopts rules establishing priorities for the acquisition and leasing of facilities of agencies that will most benefit children needing extended day services. First priority shall be given to programs that are rated in school districts that have unhoused pupils, as determined under state standards established pursuant to chapter 22 (commencing with Section 17700) of Part 10, and have developed a plan to provide extended day care services in a cost effective manner. Each lessee shall be required to demonstrate program operations in relocatable facilities are primarily for extended day care services which comply with cost-effective minimum program standards established by CDE.

Although primary use of relocatable facilities shall be for extended day care programs, those facilities may be used for other purposes if the following conditions are met:

1. The alternative use of the facility does not infringe upon accessibility of extended day care programs; and
2. CDE authorizes alternative as being compatible with extended day care programs.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****I. Relocatable Child Care and Development Facilities
(Section 8477, Education Code) (continued)**

The Board, with the advice of CDE's Superintendent of Public Instruction, may do all of the following:

1. Establish any procedures and policies, in connection with administration of this section that it deems necessary;
2. Adopt any rules and regulations for the administration of section requiring those procedures, forms, and information it deems necessary; and
3. Have constructed, furnished, equipped, or otherwise require whatever work is necessary to place relocatable extended care services facilities where needed.

The Board leases relocatable facilities to qualifying extended day care services agencies and shall charge rent one of dollar (\$1) per year. The Board requires lessees to undertake all necessary maintenance, repairs, renewal, and replacement to ensure that a project is at all times kept in good repair, working order, and condition. All costs incurred for this purpose shall be borne by the lessee. Neither the Board nor the CDE shall assume any responsibility for utility services costs other than initial installation costs reimbursed above, and the agency shall provide adequate safeguards to protect the CDE's interest in this regard.

The Board shall require lessees to insure at their own expense for the benefit of the state, and leased relocatable facility that is the property of the CDE, against any risks, including liability from the use thereof, in the amounts the Board deems necessary to protect the interests of the state. Neither the board nor the state shall assume any responsibility for utility services costs other than initial installation costs reimbursed above, and the agency shall provide adequate safeguards to protect the CDE's interest in this regard.

No relocatable facilities shall be made available to an agency unless the agency furnishes evidence, satisfactory to the Board, that the agency has no other facility available for rental, lease, or purchase in the geographic service area that is economically or otherwise feasible.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****I. Relocatable Child Care and Development Facilities
(Section 8477, Education Code) (continued)**

The Board shall have prepared for its use, performance specifications for relocatable facilities and bids for their construction that can be solicited from more than one responsible bidder. The Board solicits bids from, and award to, the lowest responsible competitive bidder, contracts for the construction or purchase of relocatable facility's that are approved for lease to eligible extended day care service agencies.

If at any time the Board determines that a lessee's need for particular relocatable facilities that were made available to the lessee has ceased, the board may take possession of the relocatable facilities and may lease them to other eligible contracting agencies, or, if there is no longer a need for the relocatable facilities, the board may dispose of them to public or private parties in the manner it deems to be in the best interests of the state.

If a lessee uses a particular relocatable facility for only a portion of the year, the board may enter into a second lease with a public or private party for the use of that facility for the portion of the year during which the facility would otherwise be unused, in the manner it deems to be in the best interests of the state.

**J. Loans; Renovation and Repair of Child Care and Development Facilities.
(Section 8494, Education Code)**

1. All of the following child care and development programs, other than those providing extended day care services, shall be eligible to receive a loan for the renovation and repair of facilities used for the program or to lease relocatable facilities to be used for the program:
 - i) Private nonprofit child care and development programs currently, or soon to be, under contract with the CDE pursuant to Section 8262.
 - ii) Campus Child Care and Development programs.
 - iii) Child care and development programs operated by, or in a facility owned by, a public entity.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****J. Loans; Renovation and Repair of Child Care and Development Facilities.
(Section 8494, Education Code) (continued)**

2. A recipient of a loan pursuant to this section shall document that the renovated facility shall comply with all laws and regulations applicable to child care facilities provided for pursuant to Chapter 3.4 (commencing with Section 1596.70) and Chapter 3.5 (commencing with Section 1596.90) of Division 2 of the Health and Safety Code.
3. A recipient of a loan pursuant to this section shall assure the board that the renovated facility shall be used for the purposes of the child care and development program for the entire loan period, which shall be determined by the board as follows:
 - i) For loans equal to or less than thirty thousand dollars (\$30,000), not less than three years.
 - ii) For loans exceeding thirty thousand dollars (\$30,000), the loan period shall increase one year for each additional ten thousand dollars (\$10,000) or part thereof, to a maximum of fifty thousand dollars (\$50,000).
4. Interest on the loan principal shall be charged at a rate equal to the average of the interest rate applied to the last three bond sales pursuant to Chapter 21.6 (commencing with Section 17695) of Part 10.
5. In the event that recipient ceases to use the renovated facility for purposes of the child care and development program prior to the expiration of the loan period, the board shall cover the entire outstanding balance of the loan, plus interest, notwithstanding the loan period originally set, unless the board deems to appropriate to waive repayment at that time.
6. If the renovated facility has been continuously used for the purposes of the child care and development program for the entire loan period, the board shall waive repayment for the amount of the loan principal, plus interest, at the end of the lease period.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****K. State Child Care Capital Outlay Fund; Eligibility of Child Care and Development Agencies; Use of Relocatable Facility Conditions; Powers of Allocation Board; Leases; (Section 8495, Education Code)**

1. There is hereby created in the State Treasury the State child Care Capital Outlay Fund. Notwithstanding Section 13340 of the Government Code, all moneys in the State Child Care Capital Outlay Fund, including moneys deposited in a fund from any source whatsoever, shall be continuously appropriated without regard to fiscal year for expend without regard to fiscal year for expenditure pursuant Section 8277.7 or this article. Funds in the State Child Care Facilities pursuant to Section 8477 shall be transferred to the State Child Care Capital Outlay fund upon the effective date of the act amending this section in the 1997-98 Regulation Session.
2. CDE shall establish the qualifications to determine the eligibility of child care development agencies, including those that provide preschool and extended day care services, to lease relocatable facilities under this section.
3. Although primary use of relocatable facilities shall be for child care and development programs, including preschool and extended day care programs, those facilities may be used for other purposes if the following conditions are met.
 - i) The alternative use of the facility does not infringe upon the accessibility of child care and development programs including preschool or extended day care programs
 - ii) The CDE authorizes alternative use as being compatible with child care and development programs, including preschool or extended day care programs.
4. The State Allocation Board, with the advice of CDE may do all of the following:
 - i) Establish any procedures and polociies in connection with the administration of this section that it deems necessary.
 - ii) Adopt any rules and regulations for the administration this section requiring those procedures, forms, and information that it deems necessary.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****K. State Child Care Capital Outlay Fund; Eligibility of Child Care and Development Agencies; Use of Relocatable Facility Conditions; Powers of Allocation Board; Leases; (Section 8495, Education Code) (continued)**

- iii) Have constructed, furnished, equipped, or otherwise acquire whatever work is necessary to place relocatable facilities for child care and development services, including preschool and extended day care services where needed.
- 5. The board shall lease relocatable facilities to qualified agencies providing child care and development services, including preschool or extended day care services, and shall charge rent of one dollar (\$1) per year. The board shall require lesser to undertake all necessary maintenance, repairs, renewal, and replacement to ensure that a project is at all times kept in good repair, working order, and condition. All cost incurred for this purpose shall be borne by the lessee. Neither the board nor the state shall assume any responsibility for utility services costs other than initial installation costs reimbursed and the agency shall provide adequate safeguards to protect the state's interest in this regard.
- 6. The board shall require lessees to insure at their own expense for the benefit of the state, any leased relocatable facility that is the property of the state, against any risks, including liability from the use thereof, in the amounts the board deems necessary to protect the interests of the state. Neither the board nor the state shall assume any responsibility for utility services costs other than initial installation costs reimbursed under this article, and the agency shall provide adequate safeguards to protect the state's interest in this regard.
- 7. No relocatable facilities shall be made available to an agency unless the agency furnishes evidence, satisfactory to the board, that the agency has no other facility available for rental, lease, or purchase in the geographic service area that is economically or otherwise feasible.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****K. State Child Care Capital Outlay Fund; Eligibility of Child Care and Development Agencies; Use of Relocatable Facility Conditions; Powers of Allocation Board; Leases; (Section 8495, Education Code) (continued)**

8. The board shall have prepared for its use, performance specifications or relocatable facilities and bids for their construction that can be solicited from more than one responsible bidder. The board shall from time to time solicit bids from, and award to, the lowest responsible competitive bidder, contracts for the construction or purchase of relocatable facilities that have been approved for lease to eligible agencies that provide child care and development services, including preschool or extended day care services.
9. If at any time the board determines that a lessee's need for particular relocatable facilities that were made available to the lessee pursuant to this article has ceased, the board may take possession of the relocatable facilities and may lease them to other eligible contracting agencies, or, if there is no longer a need for the relocatable facilities, the board may dispose of them to public or private parties in the manner it deems to be in the best interests of the state.
10. If a lessee uses a particular relocatable facility for only a portion of the year, the board may enter into a second lease with public or private party for the use of that facility for the portion of the year during which the facility would otherwise be unused, in the manner it deems to be in the best interests of the state.

L. Regulations for Allocation of Funds; Priority in Funding (Section 8495.1, Education Code)

1. The State Allocation Board establishes regulations for the allocation of funds for capital outlay and for the reimbursement of initial utility installation costs. CDE establishes qualifications for determining the eligibility of agencies providing child care and development services, including preschool and extended day care service, to apply for these funds.

ALLOCATION OF CAPITAL OUTLAY FUNDS**421****II. GENERAL AUDIT PROCEDURES (continued)****L. Regulations for Allocation of Funds; Priority in Funding
(Section 8495.1, Education Code)**

2. Notwithstanding any other provision of law, except for Section 8477, priority in funding of capital outlay grants for relocatables from funds administered pursuant to Section 8277.7 and under this article, shall be determined in the following order:
 - i) Programs experiencing emergencies as defined by the CDE and the Board.
 - ii) Facilities lost due to the Class Size Reduction Program.
 - iii) Expansion of child care services.

CALWORKS PROGRAM FUNDS:**422****I. OBJECTIVE**

To determine that CalWORKS Program funds are available to eligible former recipients of welfare social assistance who have left this aid for employment are connected as soon as possible to local child care resources.

II. GENERAL AUDIT PROCEDURES**Legislative Intent; CalWORKS Program Recipient Child Care; Stages
(Section 8350, Education Code)**

Verify that:

- K. Recipients of aid under Chapter 2 (commencing with Section 11200) of Part 3 of Division 9 of the Welfare and Institutions Code, or any successor program, and former recipients who have left aid for employment, are connected as soon as possible to local child care resources, make stable child care services after they no longer receive aid as long as they receive those services and meet the eligibility requirements.
- L. Three stages of child care services are established through which a recipient of aid under Chapter 2 (commencing with Section 11200) of Part 3 of Division 9 of the Welfare Institutions Code, or any successor program, will have pass. Families child care needs are met by county welfare departments and later by other local child care and development contractors, without any break in their child care services due to the transition between the three stages of child care services.

These are as follows:

1. First stage; management; transition

Determine the following:

- a. The county welfare department shall manage the first stage during which a family shall receive a child care subsidy for any legal case chosen by the parent. The first stage begins upon the entry of a person in to the program prescribed by Chapter (commencing with Section 11200) of Part 3 of Division 9 of the Welfare and Institutions Code.

CALWORKS PROGRAM FUNDS:**422****II. GENERAL AUDIT PROCEDURES (continued)****1. First stage; management; transition**

- b. A county shall move recipients out of this first response stage as quickly as possible after the county determines that the need for child care is stable. A recipient may be served in this stage for a maximum of six months. The six-month time limit may be extended if the county determines that the recipient's situation is too unstable to be shifted to the second stage or if no funds are available to provide child care services in the second stage.
- c. Former CalWORKs recipients who cannot be transitioned from the first stage of child care because no funded slots available are eligible to receive the first stage two child care services for up to a total of 24 months and they leave cash aid, or until they are otherwise ineligible within that 24 month period. Family size and income for purpose of determining eligibility and family fee shall be determined pursuant to Sections 8263 and 8263.1.
- d. The county welfare department shall also begin the first stage of child care when an individual who applies for aid under the program described in Chapter 2 (commencing with Section 11200) of Part 3 of Division 9 of the Welfare and Institutions Code is participating as a volunteer pursuant to Article 3.2 commencing with Section 11320) of Chapter 2 of part 3 of Division 9 of the Welfare and Institutions Code.
- e. A county may contract with public or private child care providers provide any or all of the services during the first stage. If the county welfare department elects to contract with the child care provider that is also under contract with the CDE, these contracts shall be consistent with state law.

CALWORKS PROGRAM FUNDS:**422****II. GENERAL AUDIT PROCEDURES (continued)****Local child care resource and referral program; department referrals; staff collocation; duties:**

As soon as appropriate, a county welfare department shall refer families needing child care services to the local child care service and referral program funded pursuant to Article 2 commencing with Section 8210). Resource and referral program staff shall collaborate with a county welfare department's case management offices for aid under Chapter 2 (commencing with Division 11200) of Part 3 of division 9 of the Welfare and institutions Code, or any successor program, or arrange other sources of swift communication with parents and case managers aid. The local child care resource and referral program assist families to establish stable child care arrangements as soon as possible. These child care arrangements may include licensed and license-exempt care.

CALWORKS PROGRAM FUNDS: (continued)**422****II. GENERAL AUDIT PROCEDURES (continued)****B.2 Second stage child care services; time limit; administration; contracts**

Verify that:

The second stage of child care begins when the county determines that the recipient's work or approved work activity is stable or when a recipient is transitioning off of aid and child care is available through a local stage two program. Second stage child care may be provided to a family who elects to receive lump-sum diversion payment or diversion services under Division 11266.5 of the Welfare and Institutions code when a funded space is not immediately available for the family in third stage. The local stage two agency shall assist in moving families to stage three as quickly as feasible. Former CalWORKs recipients are eligible to receive child care services in stage one or stage two for up to a total of no more than 24 months after they leave cash aid, or until they are otherwise ineligible within that 4 month period. Family size and income for purposes of determining eligibility and calculating the family fee shall be determined pursuant to Sections 8263 and 8263.1.

A family receiving cash aid under the CalWORKs program shall receive up to 2 years of child care, if otherwise eligible, as needed to continue the family's employment. The provision of the two years time limit is not intended to limit eligibility for child care under Section 8354.

The second stage shall be administered by agencies contracting with the CDE. These contractors may be either agencies that have an alternative payment contract pursuant to Section 8220.1 or county welfare departments that choose to administer this stage in order to continue to provide child care services for recipients or former recipients of aid. If the county chooses to contract with the department to provide alternative payment services, this contract shall not displace, or result in the reduction of an existing contract of, a current alternative payment program.

CALWORKS PROGRAM FUNDS: (continued)**422****II. GENERAL AUDIT PROCEDURES (continued)****B.3 Third stage child care services; administration; contracts; eligibility; legislative intent; alternative payment program:**

Verify that:

- a. The third stage of child care begins when a funded space is available. CalWORKS recipients are eligible for the third stage of child care. Persons who received a lump-sum diversion payment or diversion services and former CalWORKs participants are eligible if they have an income that does not exceed 75 percent of the state median income. The third stage shall be administered by programs contracting with the CDE.
- b. In order to move welfare recipients and former recipients from their relationship with county welfare departments to relationships with institutions providing services to working families, it is the intent of the Legislature that families that are former recipients of aid, or are transitioning off aid, receive their child care assistance in the same fashion as other low-income working families. Therefore, it is the intent of the Legislature that families no longer rely on county welfare departments to obtain child care subsidies beyond the time they are receiving other services from the welfare department.
- c. A county welfare department shall not administer the third stage of child care for CalWORKs recipients except to the extent to which it delivered those services to families receiving, or within one year of having received, Aid to Families with Dependent Children prior to the enactment of this section.
- d. This does not preclude county welfare departments from operating an alternative payment program under contract with the CDE to serve families referred by child protective services.

Child care during the third stage may be funded with moneys dedicated to current and former recipients of aid under Chapter 2 (commencing with Section 11200) of Part 3 of Division 9 of the Welfare and Institutions Code, or any successor program, including the federal funds appropriated to alternative payment program contractors in the 1996-97 fiscal year using the Budget Act's Section 28 process as described in subdivision (b). Nothing shall prevent child care services provided under stage three from being funded with moneys from other federal or state sources. Nothing shall preclude current and former recipients of aid under Chapter 2 (commencing with Section 11200) of part 3 of Division 9 of the Welfare and Institutions Code, or any successor program, from receiving child care services, pursuant to other provisions of this chapter.

CALWORKS PROGRAM FUNDS: (continued)**422****II. GENERAL AUDIT PROCEDURES (continued)****C. Extended-day and evening care; parent recruiting and training as providers; connection facilitation; cost; legislative intent:
(Section 8356, Education Code)**

It is the intent of the Legislature that the CDE work with Head Start and state preschool programs to generate extended-day and evening care for recipients of aid under Chapter 2 (commencing with Section 11200) of Part 3 of Division 9 of the Welfare and Institutions Code, or any successor program, through recruiting and training parents to be licensed and license-exempt care providers and shall facilitate connections between Head Start and state preschool contractors and child care certificate administrators, including counties and other alternative payment programs, so that funds available for Sections 8351, 8353, and 8354 cover the cost of this care.

RESERVE FUNDS (Section 8450, Education Code)**423****I. OBJECTIVE**

To determine whether the Child Development contractor has developed and maintained a reserve from earned, unexpended Child Development contract funds with FASD and that the monies derived from such funds are expended on direct child care and development services.

II. GENERAL AUDIT PROCEDURES

A. Determine the following:

The Child Development contractor, who develops and maintains a reserve within the Child Development fund derives it from earned but unexpended funds. Earned but unexpended funds remain in the contractor's reserve account within the Child Development fund and are expended only by direct service Child Development programs that are funded under contract with the CDE.

B. Determine the following for a Reserve Fund Balance:

1. Resource and Referral Programs:

Not to exceed 3 percent of the contract amount. Funds from this reserve account may be expended only by resource and referral programs that are funded under contract with the CDE.

2. Alternative Payment Programs and certificate child care contracts:

Funds from this reserve account may be expended only by alternative payment model and certificate child care programs that are funded under contract with the CDE. Reserve amount allowed may not exceed either of the following, whichever is greater:

- a. Two percent of the sum of the parts of each contract to which that contractor is a party that is allowed for administration costs pursuant to Section 8276.7 and that is allowed for supportive services pursuant to the provisions on the contract; and
- b. One thousand dollars (\$1,000).

RESERVE FUNDS (Section 8450, Education Code)**423****II. GENERAL AUDIT PROCEDURES (continued)****3. Center Based – No Reserve Limitation**

- a. Each contractors audit shall identify any funds earned by the contractor for each contract through the provision of contracted services in excess of funds expended.
- b. Any interest earned on the reserve funds shall be included in the fund balance of the reserve. This reserve fund shall be maintained in an interest-bearing account.
- c. Money in contractor's reserve fund may be used, only for expenses that are reasonable and necessary costs as defined in subdivision (0) of Section 8208.
- d. Any reserve fund balance in excess of the amount authorized above shall be returned to the CDE pursuant to procedures established by the department and re-appropriated as second year funds consistent with Section 8278.
- e. Upon termination of all child development contracts between a contractor and the CDE, all moneys in a contractor's reserve fund shall be returned to the CDE pursuant to procedures established by the CDE, and re-appropriated as second-year funds consistent with Section 8278.
- f. Expenditures from, additions to, and balances in, the reserve fund shall be included in the agency's annual financial statements and audit. Transfers of reserve funds and reserve fund balances from one CDD contract to another are only permitted within the same **type** of CDD program (i.e. Center Based, Alternative Payment, R&R etc.).

CONTINGENCY FUNDS**424****Section 8222.1. Alternative payment programs; reallocation of funds of reimbursement; applications****I. OBJECTIVE**

To determine that funds reallocated by the CDE to reimburse Child Development program contractors for actual and allowable costs incurred are for additional alternative payment program services.

II. GENERAL AUDIT PROCEDURES

Verify that:

Out of funds appropriated in accordance with Section 8278 for alternative payment programs, the CDE reallocates funds necessary to reimburse alternative payment programs for actual and allowable costs incurred for additional services. Applicants may apply to FASD for an amount not to exceed five thousand dollars (\$5,000), or two percent of the contract amount, whichever is greater. Applicants who received funds for two consecutive years under this section may not apply for funding for the following year.

“PROTOTYPE” and “PROJECT PILOT” PROGRAM FUNDS
(Section 8451, Education code)**425****I. OBJECTIVE**

To determine that the contract funds earned by Child Development contractors who were selected for Prototype and “Project/pilot” Programs are in accordance with CDP’s Funding Terms and Conditions and **Appendix C, of this guide.**

II. GENERAL AUDIT PROCEDURES**A. “Prototpye” Programs:**

CDE developed a prototype of a new contracting system pursuant to the discussion of relevant issues raised in the preliminary report titled “Revisions to the Current Contracting System for Child Care and Development Programs” dated February 6, 1996, as required by the Budget Act of 1995.

The prototype is implemented by no more than 5 percent of child care and development contractors.

“PROTOTYPE” AND “PROJECT PILOT” PROGRAM FUNDS
(continued)**425****II. GENERAL AUDIT PROCEDURES (continued)****A. “Protytopye” Programs: (continued)**

The CDE developed a plan for the prototype on January 1, 1997 and commenced testing it July 1, 1997, with necessary amendments completed by September 1, 1997. The prototype test was conducted over a two-year period and may be extended only with the concurrence of the Department of Finance and 30 days’ notification to the Joint legislative Budget Committee.

Except for separately authorized cost-of-living increases or expansions, the prototype is neither intended to increase aggregate state costs nor lower the total number of children served by the participating agencies.

An independent evaluation will be conducted of the prototype. An interim evaluation will be submitted to the legislative budget committees by January 1, 1999, with a final evaluation report submitted to the legislative budget committees by January 2000.

See Appendix C

B. “Project/Pilot” Programs: (Section 8215, Education Code)

CDE established a five-year project beginning January 1, 1996, known as the California Child Care Initiative Project in cooperation with private corporations and local governments to expand the role and functions of selected resource and referral agencies in activities that will increase the availability of quality child care programs in the State.

allocation of these state funds is made for the purpose of making grants to those child care resource and referral agencies that have been selected as pilot sites for the project.

1. Determine that grant expenditures were made for the following activities:

- Needs assessment
- Recruitment and screening of providers
- Technical assistance
- Staff development and training

“PROTOTYPE” AND “PORJECT PILOT” PROGRAM FUNDS
(continued)**425**

GENERAL AUDIT PROCEDURES (continued)

B. “Project/Pilot” Programs: (Section 8215, Education Code)

2. Determine that there is a matching of funds, as follows:

- Each dollar of CDE funds is matched by two dollars (\$2) from other sources, including private corporations, the federal government, or a local government.

CDE has developed a data base for the project. This project becomes inoperative on June 30, 2000, and as of January 1, 2001, is repealed, unless a later enacted statute, which becomes effective on or before January 1, 2001, deletes or extends the dates on which it becomes in operative and is repealed.

RESTRICTED VS. UNRESTRICTED INCOME**426****I. OBJECTIVE**

An agency may receive various kinds of income. Establish that income from other sources has been reported properly and expended for the purposes intended.

II. GENERAL AUDIT PROCEDURES

Restricted Program Income (formerly known as Special Purpose Income) is income received by a Child Development program wherein the donor restricts the use of the funds for goods or services defined as reimbursable by CDE to the extent expended in the current program year. Determine the existence of Restricted program income which includes, but is not limited to:

1. Child Care Food Subsidy
2. Nonfood Assistance
3. Rent Subsidy
4. JTPA Funds
5. Revenue Sharing, and
6. Subsidized children's family fees (the agency has to earn the fees in order to retain them)
7. Maintenance of Effort (MOE)
8. Funds from the child care reserve
9. Field trip fees
10. Donations, gifts, pledges, etc.
11. CACFP audit cost reimbursement
12. In-Kind Services
13. Food commodities

Restricted program income is reported in the Audited Final Reimbursement Calculation (AFRC).

Other Restricted Income is income received by a child development program wherein the donor restricts the use of the funds to a geographical area, specific purpose, or a specific time period.

Unrestricted Income is income received by the agency from a donor other than those listed above. Wherein the donor places no restrictions on the donation as to the use of the monies. Income in excess of actual costs for a "Fee for Service" contract is considered to be unrestricted income.

FAMILY FEES**427****I. OBJECTIVE**

Verify that all income due the agency was received or accrued within the contract period. The audited agency must apply all funds.

II. GENERAL AUDIT PROCEDURES

The auditor must determine the amount of family fees collected from all families, both certified (state eligible) and noncertified (non state eligible). The Severely Handicapped (Handicapped), Child Protective Services (upon recommendation of protective service case worker), and State Preschool programs should not collect fees.

The auditor must also determine if any certified families contributed other assets, in cash or in-kind, to the agency. Except for diapers and field trip fees which cannot exceed \$25 a year and must be approved by board of directors. This practice is prohibited, except under circumstances as described in the CDP's Funding Terms and Conditions.

INTEREST INCOME**428****I. OBJECTIVE**

All interest earned on Child Development and ABE program contract funds must be reported to the CDE on the regular report forms. Interest earned on Child Development and ABE program contract funds shall be remitted to the CDE, unless spent during the contract period on reimbursable costs and additional eligible children served.

II. GENERAL AUDIT PROCEDURES

For selected federal programs, determine if any interest was accumulated in excess of the allowable administrative interest of \$100 at the end of any fiscal quarter.

Determine if any interest was earned in excess of allowable expenditures. If excess interest was earned, determine if it was properly returned to the CDE after the audit report is reviewed and closed by the CDE. The CDE will bill the agency for any unearned interest income at the time the contracts are closed.

GENERAL**430****I. OBJECTIVE**

This section includes the compliance testing for state and federal Child Development and ABE program expenditures. CDE Alternative Payment (AP) programs are no longer required to use adjusted days of enrollment to allocate costs, or the rate multiplied by the adjusted days of enrollment to determine earnings. Direct service costs are to be accumulated for each contract and accounted for separately. The limiting factor for AP contracts is either total program cost or the MRA, whichever is less.

II. GENERAL AUDIT PROCEDURES

- A. Determine if any encumbrances have been charged to expenses. Encumbrances charged as expenses are not allowable because accounts keep on the accrual basis or the modified accrual basis are charged the cost of goods when delivered or when services are rendered. Not on the basis of something that may occur. The following is quoted from Governmental Accounting and Auditing in California, published by the California Certified Public Accountants, Foundation for Education and Research: “A common error is to consider an encumbrance the same as an expenditure. While it is true that both reduce available fund appropriations and that the ending balances of both are charged against the available fund balance, the similarity stops at that point. Unlike an expenditure, an encumbrance does not reduce the fund equity by reducing an asset or increasing a liability. It merely segregates a portion of that equity. An encumbrance system is purely a budgetary device and has nothing to do with cash or accrual basis of accounting.”
- B. Determine if contingencies were charged to expenses. Contingencies charged as expenses are not allowable because accounts kept on the accrual basis or modified accrual basis are charged the cost of goods when delivered or when services are rendered, not on the basis of something that may occur.
- C. Determine if direct costs were properly charged to a Child Development and ABE program and that there has been an equitable distribution of costs to different programs. Agencies that provide a number of services, must maintain an accounting system that ensures an equitable distribution of costs to the various programs.
 - 1. Child Development and ABE program funds may not be used to pay any portion of the cost of care for families and instruction for adults that are not certified in accordance with state eligibility criteria. The actual cost of serving these children and adults must be paid directly by the family adult and/or from other local resources.

II. GENERAL AUDIT PROCEDURES (continued)**C. (Continued)**

2. An agency may operate a number of facilities, one or more of which provide services exclusively to noncertified families and adults. Enrollment, attendance, income, and expenses of the facility(ies) providing services exclusively to noncertified families and adults should not be reported to CDE's FASD. The agency must maintain an accounting system to distribute costs among the different facilities (i.e. those providing services to certified families and those providing services exclusively to noncertified families and adults) on an equitable basis. A plan to allocate cost equitably will ensure that CDE financial support will not be used either for direct, administrative or indirect costs for families and adults not certified under CDE eligibility guidelines.

3. **COMMINGLED SITES**

In a commingled program, children are either served in the same facility, or share common facilities, equipment, staff and supplies, etc. funded from multiple state contracts and different funding sources.

Determine if the same services and costs of a child are charged to only **one** contract. Verify that costs are allocated to each contract based on the pro-rated adjusted certified days of enrollment. Determine that certified parent fees, interest on contract funds and any start-up costs for each contract is allocated to each contract separately. Each contract in the commingled program must be reported separately.

4. **CO-LOCATED SITE**

A co-located program refers to two (2) programs that cannot be commingled because they have **different** program requirements, but share the same facility.

Determine that the agency has reported **each contract separately** because of the different program types, and has an **approved Program Cost Allocation Plan** to accurately report the appropriate costs for each program.

GENERAL**430****II. GENERAL AUDIT PROCEDURES(continued)**

- D. Determine whether costs incurred pursuant to the contract are related to Child Development and ABE programs. These costs may include:

1. Actual and Allowable Net Costs – The balance of reimbursable program costs remaining after restricted program income and non reimbursable expenditures have been deducted.

In accordance with the ABE's Program Assurances, the agency shall use at least 95 percent of its ABE funds for the following adult education instructional and support activities:

- a. Instruction of students;
- b. Purchase of supplementary instructional materials and supplies;
- c. Supplementary services that alleviate problems related to scheduling, class size, class locations, and transportation;
- d. In-service training for personnel;
- e. Counseling and guidance services; and
- f. Child care for children of adults who are attending classes under Section 321.

2. ABE Base Grants – The agency shall use its \$3,500 base grant funding for only the following eligible activities:

- a. Staff development;
- b. Program assessment; and
- c. Networking.

No carryover of expenditures is allowed.

3. Close-Down Costs – Reimbursable expenses associated with the closing of operations at the end of each season. These costs are applicable **only to Migrant Child Care**, and
4. Non reimbursable Costs – Non reimbursable costs are those not payable out of contract funds (**See Section 422**).

GENERAL PROGRAM EXPENDITURES**430****I. OBJECTIVE**

The purpose of this section is to aid the auditor in determining whether or not the agency is complying with specific contract and grant restrictions for the accounting and reporting of reimbursable vs. non-reimbursable program costs.

II. GENERAL AUDIT PROCEDURES**A. General Expenditures – Center Based Programs**

Center Based programs are in essence two separate contracts. Child Care Services and/or ECE/Before and After School Services. Each contract must be accounted for separately. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD Child Development program. Expenditures should be identified as reimbursable vs. non-reimbursable following criteria in the funding Terms and Conditions.

NOTE: The CCD contract delineate the types of services to be rendered on the “Approved Service Plan”. The actual audit report **will not** separate the expenditures based on eligibility groups identified in the Approved Service Plan.

2. Determine if Center Based programs, which are commingled, have accumulated and documented all CCD related costs associated with the commingled programs within a cost pool. Commingled costs must then be allocated to the individual programs involved, utilizing the total adjusted days of enrollment for both certified and non-certified children. Therefore, total commingled expenses do not have to be allocated to the individual commingled programs through a cost allocation process.

B. General Expenditures – Alternative Payment (AP) programs: GAPP/GCPS; CalWORKs, Stage 2, G2AP

This program can be referred to as the “Certificate Program” or “Parental Choice”. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD “Parental Choice” program. Expenditures should be identified as reimbursable vs. nonreimbursable utilizing the criteria in the Funding Terms and Conditions.

GENERAL PROGRAM EXPENDITURES**430****II. GENERAL AUDIT PROCEDURES (continued)****B. General Expenditures – Alternative Payment (AP) programs: GAPP/GCPS; CalWORKs, Stage 2, G2AP (continued)**

Note: The CCD contract delineates the types of services to be rendered on the “Approved Service Plan”. The actual audit report **will not** separate the expenditures based on eligibility groups identified in the Approved Service Plan.

2. Determine if at least 75% of net reimbursable program costs are generated by direct service payments. Contractors are reimbursed for payments to providers (based on RMR Survey ceilings), administration and “other related child care costs” (ORCCC). Administration and ORCCC are limited to 25 percent (with administration not to exceed 5 percent) of net reimbursable program costs.
3. Determine if the direct service payments exceeded 1.5 standard deviations from the mean RMR survey ceiling for the type of child care provider. If a parent chooses a provider with a usual and customary rate exceeding 1.5 standard deviations above the mean market rate for the type of care provided, the parent may receive services from that provider only if the parent pays the difference between 1.5 standard deviations and the provider’s rate. The co-payment shall be paid directly by the parent to the provider and shall not be accounted for by the contractor.

C. General Expenditures – Alternative Payment (AP) Programs: Family Child Care Homes – GFCC-

This program can be referred to as the “Certificate Program” or “Parental Choice”. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD “Parental Choice” program. Expenditures should be identified as reimbursable vs. nonreimbursable utilizing the criteria in the Funding Terms and Conditions.

Note: The CCD contract delineates the types of services to be rendered on the “Approved Service Plan”. The actual audit report will not separate the expenditures based on eligibility groups identified in the Approved Service Plan.

GENERAL PROGRAM EXPENDITURES**430****II. GENERAL AUDIT PROCEDURES (continued)****C. General Expenditures – Alternative Payment (AP) Programs: Family Child Care Homes – GFCC- (continued)**

2. Determine if at least 70% of net reimbursable program costs are generated by direct service payments;
3. Determine that no more than 30% of payments for direct services shall be for quality assurance and administrative costs;
4. Determine that no more than 15% shall be for administrative costs alone; and
5. Determine if the direct service payments exceeded 1.5 standard deviations from the mean RMR survey ceiling for the type of child care provided.

D. General Expenditures – Alternative Payment (AP) Programs: CalWORKs, Stage 3, G3AP

This program can be referred to as the “Certificate Program” or “Parental Choice”. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD “Parental Choice” program. Expenditures should be identified as reimbursable vs. nonreimbursable utilizing the criteria in the Funding Terms and conditions.

Note: The CCD contract delineates the types of services to be rendered on the “Approved Service Plan”. The actual audit report will not separate the expenditures based on eligibility groups identified in the approved Service plan.

2. Determine if at least 75% of net reimbursable program cost are generated by direct service payments. Contractors are reimbursed for payments to providers (based on RMR Survey ceilings), administration and “other related child care costs” (ORCCC). Administration and ORCCC are limited to 25 percent of the direct cost of care (payments to providers).

GENERAL PROGRAM EXPENDITURES**430****II. GENERAL AUDIT PROCEDURES (continued)****D. General Expenditures – Alternative Payment (AP) Programs: CalWORKs, Stage 3, G3AP (continued)**

3. Determine if the direct service payments exceeded 1.5 standard deviations from the mean RMR survey ceiling for the type of child care provided. If a parent chooses a provider with a usual and customary rate exceeding 1.5 standard deviations above the mean market rate for the type of care provided, the parent may receive services from that provider only if the parents pays the difference between 1.5 standard deviations and the provider's rate. The co-payment shall be paid directly by the parents to the provider and shall not be accounted for by the contractor.

E. General Expenditures – Prototype programs:

---- Refer to Supplement, APPENDIX C.

F. ABE Program Compliance

Refer to ABE Grants, Compliance Testing, Attributes, **Section 495** and Specific Requirements.

FEDERAL PROGRAM EXPENDITURES**431****I. OBJECTIVE**

The purpose of this section is to aid the auditor in determining whether or not the agency is complying with specific grant restrictions for the accounting and reporting of reimbursable vs. non-reimbursable program costs.

II. GENERAL AUDIT PROCEDURES**A. CCDBG Expenditures – Center Based Programs**

Center Based programs are in essence two separate contracts: Child Care Services and/or ECE/Before and After School Services. Each contract must be accounted for separately. The auditor must test to:

1. Determine the total expenditures for the operation of the CCDBG Child Development program. Expenditures should be identified as reimbursable vs. nonreimbursable following criteria in the Funding Terms and Conditions.

NOTE: The CCDBG contract delineate the types of services to be rendered on the “Approved Service Plan”. The actual audit report will not separate the expenditures based on eligibility groups identified in the Approved Service Plan.

2. Determine if Center Based programs, which are commingled, have accumulated and documented all CCDBG related costs associated with the commingled programs within a cost pool. Commingled costs must then be allocated to the individual programs involved, utilizing the total adjusted days of enrollment for both subsidized and nonsubsidized children. Therefore, total commingled expenses do not have to be allocated to the individual commingled programs through a cost allocation process.

B. CCDBG Expenditures – Alternative Payment (AP) Programs: - FAPP/FCPS –

This program can be referred to as the “Certificate Program” or “Parental Choice”. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD AP program. Expenditures should be identified as reimbursable vs. nonreimbursable utilizing the criteria in the Funding Terms and Conditions.

FEDERAL PROGRAM EXPENDITURES**431****II. GENERAL AUDIT PROCEDURES (Continued)****B. CCDBG Expenditures – Alternative Payment (AP) Programs: - FAAP/FCPS (Continued)**

Note: The CCDBG contract delineates the types of services to be rendered on the “Approved Service Plan”. The actual audit report will not separate the expenditures based on eligibility groups identified in the approved Service Plan.

2. Determine if at least 75% of net reimbursable program costs are generated by direct service payments. Contractors are reimbursed for payments to providers (based on RMR Survey ceilings), administration and “other related child care costs” (ORCCC). Administration and ORCCC are limited to 25 percent (with administration not to exceed 5 percent) of net reimbursable program costs.
3. Determine if the direct service payments exceeded 1.5 standard deviations from the mean RMR survey ceiling for the type of child care provider. If a parent chooses a provider with a usual and customary rate exceeding 1.5 standard deviations above the mean market rate for the type of care provided, the parent may receive services from that provider only if the parent pays the difference between 1.5 standard deviations and the provider’s rate. The co-payment shall be paid directly by the parent to the provider and shall not be accounted for by the contractor.

C. CCDBG Expenditures – Alternative Payment (AP) Programs: Family Child Care Homes – FFCC

This program can be referred to as the “Certificate Program” or “Parental Choice”. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD “Parental Choice” program. Expenditures should be identified as reimbursable vs. noneimbursable utilizing the criteria in the Funding Terms and Conditions.

Note: The CCDBG contract delineates the types of services to be rendered on the “Approved Service Plan”. The actual audit report will not separate the expenditures based on eligibility groups identified in the Approved Service Plan.

2. Determine if at least 70% of net reimbursable program costs are generated by direct service payments.

FEDERAL PROGRAM EXPENDITURES**431****II. GENERAL AUDIT PROCEDURES (continued)****C. CCDBG Expenditures – Alternative Payment (AP) Programs:
Family Child Care Homes – FFCC (continued)**

3. Determine that no more than 30% of payments for direct services shall be for quality assurance and administrative cost.
4. Determine that no more than 15% shall be for administrative cost alone.

D. CCDBG Expenditures – Alternative Payment (AP) Programs:

- CalWORKs, Stage 2, F2AP
- CalWORKs, Stage 3, F3AP

This program can be referred to as the “Certificate Program” or “Parental Choice”. The auditor must test to:

1. Determine the total expenditures for the operation of the CCD “Parental Choice” program. Expenditures should be identified as reimbursable vs. nonreimbursable utilizing the criteria in the Funding Terms and Conditions.

Note: The CCDBG contract delineates the types of services to be rendered on the “Approved Service Plan”. The actual audit report will not separate the expenditures based on eligibility groups identified in the Approved Service Plan.

2. Determine if at least 75% of net reimbursable program costs are generated by direct service payments. Contractors are reimbursed for payments to providers (based on RMR Survey ceilings), administration and “other related child care cost” (ORCCC). Administration and ORCCC are limited to 25 percent of the direct cost of care (payments to providers).
3. Determine if the direct service payments exceeded 1.5 standard deviations from the mean RMR survey ceiling for the type of child care provided. If a parent chooses a provider with a usual and customary rate exceeding 1.5 standard deviations above the mean market rate for the type of care provided, the parent may receive services from that provider only if the parent pays the difference between 1.5 standard deviations and the provider’s rate. The co-payment shall be paid directly by the parent to the provider and shall not be accounted for by the contractor.

FEDERAL PROGRAM EXPENDITURES

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II. GENERAL AUDIT PROCEDURES (continued)

E. CCDBG Expenditures – Prototype Programs

- Refer to Supplement, APPENDIX C.

PERSONNEL COSTS**432****I. OBJECTIVE**

The auditor must determine whether the agency's total labor and benefit costs charged to Child Development and ABE programs are reasonable and supportable. Payroll costs should be tested to determine that: (1) time charges of employees are supported; and (2) fringe benefits claimed represent cost to the agency.

II. GENERAL AUDIT PROCEDURES**A. Payroll Costs**

1. Trace amounts posted in the general ledger to the payroll register or other documentation.
2. Select a representative sample from payroll line items and determine that:
 - a. The wage rate of each individual whose pay is tested agrees with the agency's approved rate for the individual;
 - b. Payroll deduction agree with applicable tax rates and appropriate supporting documents, such as W-4's;
 - c. Proper payroll deductions were remitted to the appropriate federal, state, and local entities in a timely fashion;
 - d. The hours reimbursed are based on time sheets approved by the authorized supervisors;
 - e. The payroll amount was computed properly;
 - f. Overtime pay, if any, was approved in writing by an authorized agency official;
 - g. Accrued sick or vacation pay has been earned and agrees with the agency's approved personnel policies; and
 - h. Multi-funded positions that are direct charged have time sheets showing hours spent on the programs charged.

B. Fringe Benefit Costs

1. Review the agency's personnel policies and determine the types of fringe benefits authorized.
2. Examine appropriateness of employee fringe benefit costs charged to CDE programs.

PERSONNEL COSTS**432****II. GENERAL AUDIT PROCEDURES (continued)****B. Fringe Benefit Cost (continued)**

3. Determine whether or not fringe benefit costs charged are:
 - a. Authorized fringe benefits;
 - b. Items that normally would be considered fringe benefits, and
 - c. Items that are not duplicated in direct labor charges such as annual leave, sick leave, or holiday pay.
4. Determine if the self retirement plan costs charged to Child Development and ABE programs are approved by the Internal Revenue Service.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional Testing required? Yes No

BOOKS, SUPPLIES, AND EQUIPMENT REPLACEMENT**433****I. OBJECTIVE**

The auditor must determine whether or not such items were (1) purchased with contract funds; (2) used in Child Development and ABE programs; (3) obtained on a competitive basis when applicable; and (4) maintained on an inventory of state fund purchases. Any differences between items or quantities determined by the audit and those shown in the accounting records shall be investigated to determine the causes of the differences and, if appropriate, reported in the Management Letter.

II. GENERAL AUDIT PROCEDURES

- A. The auditor's check may be made on a statistical sampling basis. The auditor must determine that selected items were:
1. Acquired in accordance with the agency's normal procedures and that appropriate supporting documentation was maintained.
 2. Approved in writing by CDE/CDD prior to the purchase of books, supplies, and equipment (and replacement) if the unit costs for all components exceed \$7,500 and is being claimed for state reimbursement. For example, for a computer being purchased would include the screen, printer, software, etc, in the total cost determination.
 3. Charged to the fund used by Child Development and ABE programs.
 4. Acquired through appropriate use of competitive purchasing techniques and that costs reflect actual price after cash discounts or other credits. All equipment purchases exceeding \$5,000 must have at least three bids or estimates have been obtained. The contractor must purchase the goods or services from the lowest responsible bidder. If three (3) bids or estimates cannot be obtained. The contractor must maintain documentation of the reason(s) why three bids could not be obtained.

BOOKS, SUPPLIES, AND EQUIPMENT REPLACEMENT**433****II. GENERAL AUDIT PROCEDURES (continued)**

- B. The auditor must determine that the agency is maintaining an inventory of state funded purchases that is:
1. Reconciled with the property records each year to verify the existence of the equipment, and
 2. Documented with current utilization and continued need for the equipment.

Sample Results

Total Estimated population: _____
Sample size: _____
Actual attributes tested: _____
No of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional Testing Required? Yes No

CONTRACTED SERVICES**434****I. OBJECTIVE**

The auditor must determine whether or not appropriate controls were exercised to ensure that the services were necessary, provided, and purchased at a reasonable price. Agencies are required to have their own policies on subcontracting for consultant and management services. These policies must be applied equally to all.

II. GENERAL AUDIT PROCEDURES

- A. The auditor should review subcontracts to determine that minimum documentation standards were met and that contract requirements have been met. Any discrepancies should be noted in the Management Letter. The following is the minimum documentation and requirements to support that use of consultants.
 - 1. Documentation that services are needed and the need cannot be met by current employees of the agency;
 - 2. Documentation that a selection process was used to secure the most qualified individual available, considering the nature and extent of the required services;
 - 3. Documentation that the fee is appropriate to the qualifications of the consultant, the consultant's normal charges, and the nature of the services provided; and
 - 4. **Subcontracts for auditing and/or bookkeeping services must be re-bid and changed every five (5) years unless retention of the auditor is approved by CDD and ABE.** This provision is applicable to subcontracts for audit and management services for the year 1991-92 and subsequent fiscal years. This provision is applicable to subcontracts for bookkeeping services for the 1995-96 and subsequent fiscal years.
- B. The auditor should perform the following tests for examining consultant, management and other subcontract services charged to Child Development and ABE programs:
 - 1. Trace amounts posted to the general ledger for consultant services and contracts for services to the supporting documentation;

CONTRACTED SERVICES

434

II. GENERAL AUDIT PROCEDURES (continued)**C. Continued:**

2. Select a sample of consultant service agreements and significant agency contracts for services and a representative sample of any others for examination. For each agreement and/or contract examined, determined whether:
 - a. Fees were based on proposals from one or more reputable consultants or providers of contract service. Unless exempted, three bids are required if contract services exceed \$5,000.
 - b. The subcontract was awarded to the lowest responsible bidder. If not, document and report, if significant, the basis upon which the award was made. Unless exempted, all subcontracts for \$10,000 or more shall be submitted for prior written approval to CDD and ABE, if the contractor is requesting reimbursement of costs from the State. Management and/or direct services subcontracts for Child Development and ABE programs shall be audited in accordance with this audit guide. (See **Section 470, Subcontract Audit Requirements**).
 - c. Support documentation exists that contracted services were provided and used and that they benefited the program.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rates achieved: _____

Additional testing required: Yes No

TRAVEL EXPENDITURES**435****I. OBJECTIVE**

The auditor must determine that (1) the agency has established travel policies and applied them; (2) appropriate travel costs are allocated to Child Development and ABE programs, and (3) travel costs comply with the Funding Terms, Conditions, and Assurances applicable to the contract year. Out-of-State travel is nonreimbursable without prior written CDD and ABE approval.

II. GENERAL AUDIT PROCEDURES

- A. Determine if the agency has formal travel policies. Review the travel policies to verify that they are consistent with the applicable state regulations in regards to travel and per diem rates, etc.
- B. Use a selective sample to trace travel costs from the general ledger to supporting books of original entry.
- C. Examine travel costs charged to Child Development and ABE programs as follows:
 - 1. Determine whether the travel costs claimed are consistent with the agency's travel policies and memoranda issued by CDE.
 - 2. Select a representative sample of travel expenses and ascertain that:
 - a. Travel expenses are supported by travel documents that are approved by an appropriate agency official;
 - b. Travel vouchers are approved by an authorized agency official;
 - c. Trip reports, etc., indicate that travel costs charged were program related and that travel was necessary for the performance of Child Development and ABE programs; and
 - d. Reimbursements for travel were limited to travel authorized under the organization's approved travel policy but not in excess of limitations set forth in CDE's travel memoranda applicable to the contract year. Excess travel costs must be identified as non-reimbursable costs.

TRAVEL EXPENDITURES**435****II. GENERAL AUDIT PROCEDURES (continued)**

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

OCCUPANCY COSTS AND PERSONAL PROPERTY COSTS**436****I OBJECTIVE**

The auditor must determine if the agency actually incurred rental expense and that the rental charge is reasonable in relation to prevailing rates for similar space in the local area.

II. GENERAL AUDIT PROCEDURES

- A. To determine if the rental charges in the agency's financial statements are accurate, the auditor must:
 - 1. Review the rent-lease agreement to determine the terms of the rental agreement; and
 - 2. Determine that the rent-lease agreement is in fact an operating lease agreement and not a lease-purchase agreement. If the rental agreement is an operating lease then the auditor must determine the future lease commitments and document them in a footnote to the financial statements in accordance with GAAP.
- B. After reviewing the rent-lease agreement, the auditor must determine if there is any conflict of interest. For any transaction to which the agency is (1) a party and the other party is an officer or employee of the agency or of an organization having a financial interest in the agency, or (2) a partner or controlling stockholder or an organization having financial interest in the agency; or (3) a family member of a person having a financial interest in the agency, the transaction(s) must be fair and reasonable and conducted at arm's length and disclosed in the notes to the financial statements.
 - 1. To determine if the transaction is kept at arm's length, the board members must be certain that they could not have obtained the goods or services being purchased at a more favorable rate. Prior to consummating the transaction, the governing body must authorize or approve the transaction in good faith. In addition, the board shall require the interested party(ies) to make full disclosure to the board, both in writing and during the board meeting at which the transaction is being discussed. Also, all parties having a financial interest in the transaction shall refrain from voting on the transaction, and it should be so noted in the board minutes.

OCCUPANCY COSTS AND PERSONAL PROPERTY COSTS**436****II. GENERAL AUDIT PROCEDURES (continued)**

2. If the transaction involves the renting of property, either land or buildings, owned by affiliated organizations, officers, or other key personnel of the agency or their families, the board of directors shall request the interested party to obtain a fair market estimate from an independent appraiser. When the agency is a sole proprietor or has no board or board-related policy, rent/lease agreements are prohibited, as this would be considered a self-dealing transaction. The 2% usage allowance or depreciation costs would be allowable in this case.

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

DEPRECIATION, USE ALLOWANCE, AND CAPITAL OUTLAY

437

I. OBJECTIVE

Depreciation expense and/or use allowance may be claimed as part of the actual and allowable costs for buildings, any building improvements related to Child Development and ABE programs, and equipment necessary for the operation of a Child Development and ABE program when the building and/or equipment are **owned by the agency**. An agency may not charge depreciation or use allowance on any asset or assets purchased with public funds or donated to the agency. In addition to depreciation or use allowance, the agency may claim only taxes, necessary insurance, and maintenance.

II. GENERAL AUDIT PROCEDURES

A. Determine that the amount of expenditures charged is correct.

1. Examine the agency's depreciation schedule and determine that assets being depreciated and claimed against Child Development and ABE program contract funds are agency owned assets only.
2. Determine that depreciation amounts were computed properly; and
3. Depreciation and associated costs must be disclosed in the notes to the financial statements.

B. Expenditures listed in the following classifications must be shown on the Schedule of Renovation and Repair Expenditures and the Schedule of Equipment Expenditures Utilizing Contract Funds included in the audit report as supplemental information:

- 6100 – Sites and Improvements of Sites
- 6200 – Buildings and Improvements of Buildings
- 6400 – Equipment
- 6500 – Equipment Replacement

DEPRECIATION, USE ALLOWANCE, AND CAPITAL OUTLAY**437****II. GENERAL AUDIT PROCEDURES (continued)**

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

INDIRECT COST

438

I. OBJECTIVE

The auditor must determine whether indirect costs, where applicable, are reasonable and have not also been charged as direct cost to Child Development programs. The auditor must also determine that the applied indirect cost rate does not exceed State limitations. **Note: No indirect costs will be reimbursed for ABE programs in accordance with ABE General and Program Assurances.**

II. GENERAL AUDIT PROCEDURES

- A. Review the costs in the indirect cost pool to ensure that each cost element is reimbursable with contract funds;
- B. Review the calculation of indirect costs to ensure that:
 - 1. The proper rate was used;
 - 2. Indirect costs are claimed only after the development of a cost allocation plan that must provide the rational basis of the claim. If indirect costs have been claimed, the cost allocation plan must be on file in the headquarters of the agency that submitted the claim. Cost allocation plans are to be completed in accordance with OMB Circular A-122;
 - 3. The indirect cost rate calculation is mathematically accurate;
 - 4. The agency's indirect cost rate does not exceed eight (8) percent, and the rate is applied to budget categories 1000 through 5000 only in determining the indirect charge to the contract; and
 - 5. For all alternative payment programs, indirect cost related to administrative activities fall within the five percent (5%) cap on administrative costs. Indirect costs related to Other Related Child Care Cost (ORCCC) do **not** fall within the five percent (5%) cap on administrative costs.
- C. The auditor must verify and comment on the following:
 - 1. That costs included in the direct cost pools are not also charged as direct costs;
 - 2. That all cost elements in the indirect cost pool benefit the certified Child Development program;

INDIRECT COST**438****II. GENERAL AUDIT PROCEDURES (continued)**

3. That all cost included in the indirect cost rate are reimbursable costs; and
 4. That any depreciation costs are included in the indirect cost pool computed by a straight line method as required by Funding Terms and Conditions.
- D. Contractor shall maintain written documentation of the rationale used in determining Indirect Costs.

ORCCC (Example):

Eligibility and Recertification
License Verification
Recruiting
Resource and Referral Services
Review/Supervision of placements
Site Inspection

to name a few

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

START-UP/CLOSE-DOWN COST**439**

Start-up costs are “those expenses an agency incurs...prior to the full enrollment of children.” A start-up allowance is not additional funding, but is part of the MRA.

I. OBJECTIVE

Determine that the start-up costs are those one-time only costs, except for Migrant programs, associated with the starting or expanding of a Child Care and Development and ABE program due to an increase in the amount of contract funding. Start-up/close-down costs should be separately identified in the agency’s accounting system.

II. GENERAL AUDIT PROCEDURES

- A. Only the following may be included as start-up costs:
1. The employment and orientation of necessary staff.
 2. The setting up of the program and facility;
 3. The finalization of rental agreements and the making of necessary deposits;
 4. The purchase of a reasonable inventory of materials and supplies; and
 5. The initial premium for insurance.
- B. **Migrant programs are the only programs that may claim “close-down costs”.** Close-down costs are reimbursements for all necessary activities associated with the closing of operations at the end of each growing season.
- C. If all or part of the fifteen percent (15%) allowable start-up costs as administrative cost is needed and spent, that portion will not have to be earned.
- D. Contractors shall maintain an auditable record of start-up/close-down costs which shall be included within the audit at the end of the year.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

**ADMINISTRATIVE COSTS AND
OTHER RELATED CHILD CARE COSTS (ORCCC)****440****I. OBJECTIVE**

Contractors may claim administrative costs that are directly related to the provision of Child Care and Development, and ABE programs services, as follows:

Child Development Programs

1. Non-Alternative payment and CalWORKs programs:

Reimbursement of administrative costs shall not exceed fifteen percent (15%) (in accordance with Section 8276.7 Education Code) of net reimbursable Child Development program costs or actual administrative costs, whichever is less. The fifteen percent (15%) includes any allowance for indirect costs and audits.

2. Alternative Payment and CalWORKs programs:

Reimbursement of- Administrative costs referenced to in Section 438 B.5, shall **not** exceed five percent (5%) of net reimbursable program cost or actual administrative, whichever is less.

3. Center-based Programs:

Administrative costs for Center-Based programs must allocated to the programs based on the benefits received. An equitable method for determining the benefits received must be developed and maintained by the agency. (Allocation by revenue received is **not** an acceptable method). The methodology and calculations used must be documented in the accounting records.

Contractors shall maintain written documentation of the rationale used in determining indirect and administrative costs, and whether a cost is administrative or ORCCC.

**ADMINISTRATIVE COSTS AND
OTHER RELATED CHILD CARE COSTS (ORCCC)****440****I. OBJECTIVE (continued)****ABE Programs**

Reimbursement of administrative costs shall not exceed five percent (5%) of program funds for:

1. Planning;
2. Administration;
3. Evaluation
4. Personnel development; and
5. Coordination

Note: **No** administrative expenditures are allowed with the Base ABE grant funds.

II. GENERAL AUDIT PROCEDURES

- A. Review the agency's administrative costs for all services performed pursuant to the Child Development and ABE contract. Determine whether:
 1. The agency's child development and adult basic education contract limits the amount of administrative costs charged to Child Development and ABE programs;
 2. The administrative costs were within the limits of the contract;
 3. The administrative costs are reimbursable with contract funds;
 4. The agency has exceeded the administrative costs limitation as set forth in its contract(s) with CDE; and
 5. All administrative costs are fully documented.
- B. Determine whether the contractor finds it necessary to prorate between administrative expenses and direct service expenses, and verify that a Cost Allocation Plan is available to the auditor at the end of the fiscal year. The most acceptable method of determining the prorated share of personnel expenses is the time-and-materials method. In this method, the cost of salaries and benefits are accumulated in direct proportion to the time spent and the cost of materials used. If it is necessary to prorate facility expenses, the time-floor area method is suggested.

ADMINISTRATIVE COSTS AND
OTHER RELATED CHILD CARE COSTS (ORCCC)

440

II. GENERAL AUDIT PROCEDURES (continued)

In the time-floor method, the contractor will prorate on the basis of the floor area occupied by the program in proportion to the total floor area and the percent of time such floor area is used. Other possible methods of prorating costs are described in the *California School Accounting Manual*, and the contractor may use any method described therein.

ORCCC are used to support functions that seem administrative in nature because they are **other** than direct service payments to providers but are not purely administrative accumulated in direct proportion to the time spent and the cost of materials used. If it is necessary to prorate facility expenses, the time-floor method, the contract will prorate on the basis of the floor area occupied by the program in proportion to the total floor area and the percent of time such floor area is used. Other possible methods of prorating costs are described in the *California School Accounting Manual*, and the contractor may use any method described therein.

- C. For the purposes of classification, administrative costs are defined as those costs where neither the children, the parents, nor the providers are direct recipients or beneficiaries of the services. A provider is defined as an agency or individual who provides direct child care and development services for the prime contractor.

Regardless of the organizational structure and differentiated functions of staff within the agency, certain costs are clearly defined as either administrative expenses or direct service expenses. Some examples of these costs are listed below. However, in no way are these lists to be considered all-inclusive.

1. Administrative Costs (examples)
 - a. All indirect costs;
 - b. Audit and fiscal record keeping;
 - c. Administrative staff cost, including fringe benefits;
 - d. Staff development for administrative staff;
 - e. Travel expenses related to administrative functions;
 - f. Prorated share of facility costs related to administrative activities;
Expenses for board/advisory councils where the function is not directly related to the children, families, or providers; and
 - g. Program record keeping.

**ADMINISTRATIVE COSTS AND
OTHER RELATED CHILD CARE COSTS (ORCCC)****440****II. GENERAL AUDIT PROCEDURES (continued)****2. ORRRC (examples)**

- a. Eligibility and Recertification;
- b. License Verification;
- c. Recruiting;
- d. Resource and Referral Services;
- e. Review/Supervision of placements; and
- f. Site Inspection

3. Direct Service Costs (examples)

- a. Payments to providers;
- b. Certification and recertification;
- c. Staff development for program and provider staff;
- d. Travel expenses related to family or provider support;
- e. Consultant contract for nonadministrative services;
- f. Prorated share of facility costs related to direct service activities; and

Community liaison activities where the function is directly related to family or provider support.

In situations where the classification of expenditures is in the “gray area” and their placement as direct service costs is essential to meet the fifteen percent (15%) administrative costs limitations, it is required that the agency prepare written statements for expenditure justification for any questionable costs. These written statements should be maintained in the agency’s files so that you can determine the rationale used for expenditure classification.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

COST ALLOCATION**441****I. OBJECTIVE**

Most agencies are funded by more than one program, and the primary goal of the agency is to provide maximum program services while minimizing the administrative costs associated with running the programs. The agency must develop a cost allocation system that is equitable as well as allowable in accordance with contract and grant requirements. The auditor must determine if the allocation plan has been properly implemented by the agency, and that it adheres to all federal requirements (i.e., CFR 45, Part 74; OMB A-133; and OMB A-122) and state requirements (i.e., Funding Terms, Conditions, and Assurances; California Education Code; and California Code of Regulations, Title 5 and 22).

II. GENERAL AUDIT PROCEDURES

- A. The auditor must determine if the agency is properly documenting their cost allocation plan in accordance with CDE requirements.
- B. The auditor should review the agency's cost allocation plan to determine if:
 - 1. Costs have been properly classified as direct costs (Sections 432 – 436), supporting services and administrative costs; and have been charged to the proper contract/grant source;
 - 2. The cost allocation plan adheres to the federal and state requirements listed above; and
 - 3. The agency is properly implementing the allocation plan and evaluating and updating operating results.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

NONREIMBURSABLE COSTS**442****I. OBJECTIVE**

The auditor must determine that only actual and allowable reimbursable program costs have been applied against Child Development and ABE program contract funds. Non-reimbursable costs are those not payable out of contract funds. Total expenditures should be identified as reimbursable vs. non-reimbursable in the agency's reports to CDE's FASD.

II. GENERAL AUDIT PROCEDURES

Examples of non-reimbursable costs include, but are not limited to:

1. Bad debts (excluding parent fees);
2. Contributions;
3. Entertainment;
4. Fines/penalties;
5. Bonuses, unless they are part of a collective bargaining agreement;
6. Excess facility costs;
7. Profit unless part of a subcontract with a profit making entity;
8. Severance pay except earned vacation unless required by a collective bargaining agreement or contractor policy;
9. Capital outlay costs for land and buildings. See Funding Terms, Conditions and Assurances for details and allowability of equipment, personal property costs and improvement;
10. Out-of-state travel without prior written state approval;
11. In-state travel expenses in excess of that permitted by the Department of Personnel Administration rules;
12. Interest expense-only allowed if CDE apportionment is late and caused by the CDE, with approval, and lease purchases, and Section 443 below;
13. Other costs not directly related to provisions of child care and adult education services in accordance with statutory requirements; and
14. ABE funds shall not be allocated to general secondary school programs designed around high school equivalency certification of the General Education Development (GED) test.

For a complete listing of other non-reimbursable costs, review the Funding Terms, Conditions, and Assurances.

NONREIMBURSABLE COSTS**442****II. GENERAL AUDIT PROCEDURES (continued)****Sample Results**

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

INTEREST EXPENSE EXCEPTION**443****I. OBJECTIVE**

To determine whether interest expense incurred by an agency for child care and development services is reimbursable.

II. GENERAL AUDIT PROCEDURES

On **reimbursement for interest paid by contractors** on private sector debt financing for purchase, lease-purchase, repair, or renovation of child care and development facilities determine the following:

1. Interest paid by contractors on private sector debt financing for the purchase, lease-purchase, repair, or renovation of child care and development facilities owned or leased by contractors providing center-based care, is reimbursable in accordance with Section 8272, Education Code.
2. Contractors must demonstrate that the amount of interest paid in a year on private sector debt financing does not exceed the value obtained by the CDE in the use of the facilities during the year for the child care and development services program. The following methods of making this demonstration are as follows:
 - a) Amortization of a loan or lease-purchase contract on a straight-line basis for the purchase price of a permanent building and real estate, including any loan fees, taxes, points or other fees associated with the purchase, over a period of 15 years or more.
 - b) Amortization of a lease-purchase contract on a straight-line basis for the purchase price of a permanent building and real estate, including any loan fees, taxes, points or other fees associated with the purchase, over a period of 15 years or more.
 - c) Acceptable evidence that loan payments for the purchase of a portable building or permanent building and real estate, including principal and interest, do not exceed the fair market rental cost that the contractor would have paid if the property was not purchased.
3. Loans or lease-purchase agreements amortized over the number of years designated in (2) above, but due in a fewer number of years, shall not be disallowed because of the shorter due date.

INTEREST EXPENSE EXCEPTION**443****II. GENERAL AUDIT PROCEDURES (continued)**

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

PROPERTY MANAGEMENT**450****I. OBJECTIVE**

The auditor must determine whether or not the agency maintains a property management system adequate to meet the guidelines provided in 34 CFR 74.130, Subpart O.

II. GENERAL AUDIT PROCEDURES

The audit should emphasize whether or not:

1. The agency maintains property records to account for all equipment purchased or donated.
2. Property records contain information necessary to identify the property, the funding source, the acquisition data and cost, the location and use of the property, and to disclose ultimate disposition, if any;
3. The agency takes a physical inventory of program property and reconciles the results with property records at least yearly;
4. Differences between the property record balances and the physical inventory balances are investigated and fully documented;
5. Proper approval is received to remove lost or surveyed property from the property ledger, and
6. Insurance recoveries are shown as income.

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

ANALYTICAL REVIEW**451****I. OBJECTIVE**

The auditor shall determine if the overall presentation of the financial statements and other financial information of the Child Development and ABE funds are reasonable.

II. GENERAL AUDIT PROCEDURES

The auditor should analyze the current year financial information by the following methods:

1. Analysis of current year expenditures compared to the prior year and ABE grant budget.
2. Analysis of changes in net asset (fund) balance. The fund balance for the Child Development and ABE fund may increase only due to unrestricted funds received that have not been expended.
3. When an agency has incurred a negative net asset (fund) balance, the auditor must analyze what the cause and the agency's ability to continue as a going concern. The auditor should also consider the steps being taken by the agency to eliminate the negative net asset (fund) balance and whether current year CDE contract funds have been used to liquidate prior year debt. The auditor must document in the working papers, and disclose in the audit report the source of funds used to cover the current year deficit or negative (fund) balance.
4. Analyze the cash flow during the fiscal year to determine whether the contract funds received by the agency have been expended to liquidate non-contract expenditures.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

GENERAL RECORDKEEPING REQUIREMENTS**452****I. OBJECTIVE**

The auditor must determine whether or not the agency is retaining its accounting records for a minimum of five (5) years in accordance with 5 CCR §18067.

II. GENERAL AUDIT PROCEDURES

The audit should emphasize whether or not:

1. The agency retains its accounting records for a minimum of five (5) years;
2. The agency maintains documentation to support its accounting transactions and reports; and
3. If the agency is funded by more than one Child Development and/or ABE program contract/grant, verify that the agency maintains documentation on its method of allocation of administrative costs between funding sources.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

1998/99
SPECIFIC
REQUIREMENTS

CENTER BASED PROGRAMS**460****I. OBJECTIVE**

Determine that the Child Days of Enrollment (CDE) or Child Hours of Enrollment (CHE) reported by the agency are accurate and classified properly (“Attendance,” for the purposes of reimbursement, includes excused absences of children because of illness, quarantine, illness or quarantine of their parent, family emergency, or to spend time with a parent or other relative as required by a court of law or that is clearly in the best interest of the child).

II. GENERAL AUDIT PROCEDURES

1. Determine that the system used to establish the eligibility of the children is adequate and that the agency is adhering to the prescribed system.
2. Determine that the agency has a daily sign-in, sign-out attendance register and that it reflects the number of hours child care is needed each day as is shown on the child’s application. The child’s actual time of arrival and departure must be reported. Verify that the sign-in/sign-out sheets documentation includes the following:
 - a. Full signature of the parent or authorized adult who drops off and picks up the child;
 - b. Full signature of the staff person designated to enter times of arrival and departure if the child is not dropped off or picked up by a parent or other authorized adult; and
 - c. First and last initials of the staff person designed to record times a school-age child departs for and returns from school during the day.
3. Verify the agency’s attendance accounting records contain the following for claimed excused absences:
 - a. Name of child;
 - b. The date(s) of absence;
 - c. The specific reason for the absence; and
 - d. The parent’s or designated staff person signature if verification is made by telephone.

Verify no more than 10 excused absences “in the best interest of the child” are claimed during the contract period, except for children who are recipients of protective services or at risk of abuse or neglect.

CENTER BASED PROGRAMS**460****II. GENERAL AUDIT PROCEDURES (continued)**

Verify the agency's governing board has adopted policies regarding the following:

- a. Circumstances constituting excused absences for "family emergencies" and "in the best interest of the child", and
 - b. Circumstances considered to be unexcused absences.
4. Determine that the attendance records support attendance reports submitted to CDE's Fiscal Administrative Services Division (CDD—9500 series). A summary of attendance for each contract/program is to be included in the audit report as the Schedule of Child Attendance (Appendix A) with the required footnote disclosure:

"Attendance records are being maintained in accordance with the requirements of the California Department of Education, Child Development Division; and the original supporting records covering child attendance, such as sign-in and sign-out sheets and/or daily attendance records, agree with the child attendance data reported for apportionment purposes."

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

FAMILY FEES**461****I. OBJECTIVE**

The audit shall include a sampling of the evidence of fees paid by families of certified and non-certified children, the average daily enrollment of certified and non-certified children, the average number of days of services provided to the certified children, and the terms of the contract, in accordance with Section 8267 of the Education code.

In addition, **Alternative Payment Program** audits shall include but not be limited to:

1. A sampling of the evidence of fees charged to and paid by families of certified and non-certified children;
2. The daily enrollment of certified children;
3. The number of days of service provided to certified children; and
4. The assessment and collection of parent fees; and the availability of support services to certified children and their families as needed pursuant to the terms of the contract.

II. GENERAL AUDIT PROCEDURES

- A. Select a sample of family fees from the agency's attendance register and revenue accounting records.
- B. Test sample to:
 1. Children's family files for:
 - Name(s) of child(ren)
 - Full-time/Part-time status
 - Verification of total family income
 2. Determine rate from CDD's current Family Fee Schedule;
 3. Compare rate for any audited difference; and
 4. Determine that support services were indiscriminately available to both certified and non-certified children and their families:
- C. Integrate sample test results with auditor's substantive testing of the agency's family fee receivable and revenue general ledger accounts.

FAMILY FEES**461****II. GENERAL AUDIT PROCEDURES (continued)**

The following required disclosure shall be included on the Schedule of Child Attendance, if applicable:

“SAMPLE RESULTS:

1. The audit sample results indicated that the subsidized families were charged approximately the same fees for service as the non-subsidized families.
2. From our sample of children’s files, and CD-9400’s, we considered that parent fees were assessed correctly and the fees were collected and recorded properly.
3. We found nothing in our samples to indicate that support services to subsidized children and their families, as needed pursuant to the funding terms and conditions, were not available.”

NOTE: If there are **no** subsidized (certified) children, then disclosures 1 and 3 would not be applicable.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

RESERVE ACCOUNTS**462****I. OBJECTIVE**

Determine that the agency has been awarded a reserve account from FASD and maintains it within the child Development Fund Derived from earned but unexpended funds.

II. GENERAL AUDIT PROCEDURES

1. Verify the agency submitted a letter of intent to establish a reserve account for each reserve it maintains, (Form 9530-Ltr)
2. Separate accounting and reporting is required for Reserve Accounts by the following contract categories:

- Center-Based;
- Alternative payment; and
- Resource and Referral.

3. Verify Reserves are maintained in an interest-bearing account.

Although separate accounting by contract categories is required for all reserve payments, interest earnings can be commingled in the same interest-bearing account as long as the reserve balances by contract categories is readily determinable.

4. Verify that reserve expenditures are allowable in accordance with the contract funding Terms and Conditions and that no transfers were made to Reserves of other contract categories.
5. Verify that the agency has submitted a Reserve Account Activity Report (Form 9530-A) for each of its Reserve Accounts.
6. Verify that the reserve payments were credited to the proper account(s).

RESERVE ACCOUNTS**462****II. GENERAL AUDIT PROCEDURES****Sample Results**

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

AGENCY STAFF**463****I. OBJECTIVE**

Determine that the agency maintains qualified staff in accordance with **Education Code Sections 8360 – 8370**, Article 16, Child Development Program Personnel Qualifications, **CCR, Title 5, Sections 18203 and 18168**, and CDP's FT&C's.

II. GENERAL AUDIT PROCEDURES

1. Review agency's personnel roster, organization chart and job descriptions/duty statements.
2. Review agency's personnel files for qualifications documentation of:
 - Job application;
 - Job dewcription;
 - Education and experience verification;
 - Credentials; and
 - Permits.
3. Verify that the qualifications documented in the personnel files in two (2) above meet or exceeds CDD requirements of **Attachment A** and requirements of Child Development Permit Matrix.

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

STAFF QUALIFICATIONS

ATTACHMENT A

Program Director Qualifications

Site Supervisor Qualifications

New CDD Requirements
<u>Education/Experience/Permit Requirements</u> <ul style="list-style-type: none">▪ A permit issued by the Commission on Teacher Credentialing authorizing supervision of a child care and development program operating in multiple sites. This can be either a:<ul style="list-style-type: none">◆ (New) Child Development Program Director permit, or◆ Children's Center Supervision Permit, or▪ A current credential issued by the Commission on Teacher Credentialing authorizing teaching service in elementary school or a single subject in home economics, and six units in administration/supervision of ECE/CD (Not required to any person who was employed as a program director prior to 1/1/93 in a child care and development program receiving funding by the CDD) and 12 units of ECE/CD or at least two years experience in an ECE/CD program.▪ An administrative Services Credential authorizing administration or supervising in public schools in California that includes a preschool authorization. <p><u>For Severely Handicapped Programs only:</u></p> <ul style="list-style-type: none">▪ Education Code Section 8360.3 <p><u>For School-Age Community Child Care Programs only:</u></p> <ul style="list-style-type: none">▪ Title 5, California Code of Regulations, Section 18203 <p>(For Severely Handicapped and School-Age Community Child Care Programs, the requirements have not changed)</p>

New CDD Requirements
<u>Education/Experience/Permit Requirements</u> <ul style="list-style-type: none">◆ A permit issued by the Commission on Teacher Credentialing that authorizes supervision of a child care and development program operating in a single site. This can be either a:<ul style="list-style-type: none">◆ (New) Child Development Site Supervisor Permit, or◆ Children's Center Supervision Permit▪ A current credential issued by the Commission on Teacher Credentialing authorizing teaching services in elementary school or a single subject credential in home economics, and six units in administration/supervision of ECE/CD (Not required to any person who was employed as a program director prior to 1/1/93 in a child care and development program receiving funding by the CDD) and 12 units of ECE/CD or at least two years' experience in an ECE/CD program.▪ An Administrative Services Credential authorizing administration or supervision in public schools in California that includes a preschool authorization. <p><u>For School-Age Communitychild Care Programs only:</u></p> <ul style="list-style-type: none">▪ Title 5, California Code of Regulations, Section 18205 <p>(For School Age Community Child Care Programs, the requirements have not changed)</p>

Contractors are not subject to regulations under CCR, Title 5, and the laws upon which those regulations are promulgated if subsidized children comprise less than a majority of the enrollment at a given center.

If there are no facilities in the area able to meet the special needs of particular children, then the CDD may, upon request, waive its regulations for staffing and ratios for programs in which subsidized children comprise a majority of the enrollment.

Teacher Qualifications

New CDD Requirements
<p data-bbox="440 409 958 441"><u>Education/Experience/Permit Requirements</u></p> <ul style="list-style-type: none"> <li data-bbox="440 478 1088 640"> <p>▪ A permit issued by the Commission on Teacher Credentialing authorizing service in the care, development, and instruction of children in a child care and development program. This can be either a:</p> <ul style="list-style-type: none"> <li data-bbox="488 678 1031 745">◆ A Regular Children’s Center Instructional permit, <u>or</u> <li data-bbox="488 783 1019 850">◆ A limited Children’s Center Instructional permit, <u>or</u> <li data-bbox="488 888 1084 955">◆ An Emergency Children’s Center Instructional Permit, <u>or</u> <li data-bbox="488 955 1039 1022">◆ (New) Child Development Master Teacher permit, <u>or</u> <li data-bbox="488 1022 1075 1056">◆ (New) Child Development Teacher Permit, <u>or</u> <li data-bbox="488 1094 1071 1228">◆ (New) Child Development Associate Teacher Permit (Note: This permit authorizes the holder to supervise Assistant permit holders only, not sides), <u>or</u> <li data-bbox="440 1266 1084 1493"> <p>▪ A current credential issued by the Commission on Teacher Credentialing authorizing teaching service in elementary school or a single subject credential in home economics, and 12 units in ECE and/or CD or two years experience in early childhood education or a child care and development program.</p> <p data-bbox="440 1530 941 1562"><u>For Severely Handicapped Programs only:</u></p> <ul style="list-style-type: none"> <li data-bbox="440 1562 860 1596">▪ Education Code Section 8360.3 <p data-bbox="440 1633 1031 1696"><u>For School-Age Community Child Care Programs only:</u></p> <ul style="list-style-type: none"> <li data-bbox="440 1696 1052 1759">▪ Title 5, California Code of Regulations, Section 18206 <p data-bbox="440 1797 1047 1890">(For Severely Handicapped and School-Age Community Child Care Programs, the requirements have not changed)</p>

Staffing Qualifications**Specific Requirements****CHILD DEVELOPMENT PERMIT MATRIX**

TITLE	EDUCATION REQUIREMENT	EXPERIENCE REQUIREMENT	ALTERNATIVE QUALIFICATIONS	AUTHORIZATION	FIVE YEAR RENEWAL
Assistant (Optional)	6 units of Early Childhood Education (ECE) or child Development (CD)	None	Accredited HERO program (including, ROP); or CTC approved training.	Assist in the Instruction of children under supervision of Associate Teacher or above.	105 hours of professional growth
Associate Teacher	12 units of ECE/CE including core courses	50 days of 3+ hours per day within 2 years	Child. Dev. Associate (CDA) Credential; or CTC approved training.	May provide instruction and supervise assistant.	Must meet teacher requirement within 10 years.
Teacher	24 units ECE/CD including core courses + 16 GE units.	175 days of 3+ hours per day within 4 years	AA or higher in ECE or related field w/3 sem. Units of supervised field exp, in ECE setting; or CTC approved training.	May provide instruction and supervise all above (Inc. Aide)	105 hours of professional growth.
Master Teacher	24 units ECE/CD including core courses +16 GE units, +6 specialization units; +2 adult supervision units.	350 days of 3+ hours per day within 4 years, including at least 100 days of supervising adults.	BA or higher q/12 units of ECE, +3 sem. Units supervised field exp. In ECE setting; or CTC approved training.	May provide instruction and supervise all above (incl. Aide). May also serve as coordinator of curriculum and staff development.	105 hours of professional growth
Site Supervisor	AA (or 60 units) with 24 ECE/CD units including core); + 6 units administration; +2 units adult supervision.	350 days of 3+ hours per day within 4 years, Including at least 100 days of supervising adults.	BA or higher w/12 units of ECE, + 3 sem. Units of supervised field exp. In ECE setting, Teaching or Admin. Credential w/12 units of ECE, +3 supervised field exp. In ECE setting, or CTC approved training.	May supervise single site program, provide instruction; and serve as coordinator of curriculum and staff development.	105 hours of professional growth.

AGENCY STAFF**464****I. OBJECTIVE**

Determine that the staffing of all Center based child care and development programs of the Agency is in the proper adult/child ratios in accordance with Education Code, Section 8288, CCR Title 5, Sections 8290 – 92; and Family Child Care Homes pursuant to adult/child ratios prescribed in Chapter 7, Section 86001 of Division 6 of Title 22 of the California Administrative Code.

II. GENERAL AUDIT PROCEDURES

1. Review Agency's personnel roster, organization chart and job descriptions/duty statements for the types of adults.
2. Review **actual** attendance records for the total number of children served by enrollment category of child:
 - i.) Infants
 - ii.) Toddlers
 - iii.) Preschool
 - iv.) Kindergarten through 14 years old.
3. Verify that the agency maintained the minimum staffing ratios for each selected enrollment category.
4. Verify that any exceptions to the staffing ratios are attributed to the following:
 - i.) Commingling of Age categories
 - ii.) Staffing ratio variance

Sample Results

Total estimated population: _____
Sample size: _____
Actual attributes tested: _____
No. of errors in sample: _____
Expected error rate: _____
Tolerable error rate: _____
Actual error rate achieved: _____

Additional testing required? Yes No

SUBCONTRACTORS**470****I. OBJECTIVE**

To test contractual agreements of private non-profit and for-profit agencies (subcontractors) for administering and managing a child care development and ABE delivery system for local educational, private non-profit, and for-profit agencies (contractors) for compliance and the reasonableness and allowability of fees, revenues and costs.

II. GENERAL AUDIT PROCEDURES

Verify the reasonableness and allowability of the terms and conditions of subcontract agreements to supporting documentation and CDE compliance requirements, as follows:

CHILD CARE SERVICES

School Districts, other local educational agencies(LEA), and non-profit organizations (who are the contractors) may subcontract with child care and ABE providers (subcontractors) for child care development and ABE services authorized by contracts with the CDD and ABE, as the most cost-effective means of providing these services.

However, the contractor still retains the overall responsibility in the contractual agreements.

TYPES OF SUBCONTRACTORS

- 1) CDD and ABE non-profit agencies;
- 2) For-profit organizations that also have CDD contracts and ABE grants;
- 3) Public agencies; and
- 4) Cities and counties

Compliance requirements are covered in CCR Title 5, Sections 18026 to 18031, Article 2, Subcontracts, and the Funding Terms, Conditions and Assurances.

Subcontracts for management and/or direct services shall be audited in accordance with Section 18032, Audit Requirements for Subcontracts, of Title 5, the Funding Terms, Conditions and Assurances, and these guidelines, and shall be reported in the subcontractor's annual audit for Agreements for Participation as management agreements. The annual audit shall include a review of subcontract compliance. The subcontractor shall provide the contractor with a copy of its annual audit in accordance with the Agreement for Participation.

SUBCONTRACTORS**470****II. GENERAL AUDIT PROCEDURES (continued)****TYPES OF CONTRACTORS (continued):****A. School Districts and Other Local Educational Agencies (LEA)**

The supplementary reporting requirements for subcontractors providing child care and development services with School Districts and other LEA's are the **same** as those requirements for all for-profit and non-profit organizations contracting directly with CDD and ABE. (See **APPENDIX A, pages A-23 to A76, Supplementary CDD Reporting Requirements**).

Agreement for Participation:

There must be a contractual agreement signed and documented between the contractor and the subcontractor who is providing the child care development and adult basic education services. The auditor should determine that the Agreement for Participation includes:

1. Requirement that the subcontractor submit a copy of its annual audit to the School District and other LEA.
2. **All** terms and conditions negotiated between the parties that were included in the subcontractor's billing to the School District and other LEA for providing child care development and adult basic education services. Examples of terms and conditions include the following:
 - a) Rate
 - b) Certified Parent Fees and/or Interest Income
 - c) Indirect Costs
 - d) Rent
 - e) Additional Rent
 - f) Participation in the Child and Adult Care Food Program (CACFP)
 - g) Promotional considerations and "extras"

Promotional considerations and "extras" require supporting documentation and reasonable justification. Otherwise, the OEA may disallow cost as a contract "sweetener". See Justification in 5 below.

3. Prior CDD Approval is not required.

SUBCONTRACTORS**470****II. GENERAL AUDIT PROCEDURES (continued)****A. School districts and other Local Education Agencies (LEA) (continued)****Agreement for Participation (continued):****4. Subcontractor's Billing Invoice for Services**

All terms and conditions that appear on the subcontractor's invoice must conform to, and agree with the Agreement for Participation. The cost associated with any item on the subcontractor's invoice that is not stated in the participation agreement shall be disallowed in the annual audit.

5. Justification

- a) Rate – As stated on the Attachment to the Agreement for Participation.
- b) Certified Parent Fees and/or Interest Income – Provider agrees to earn subsidized parent fees and/or interest income by serving an appropriate number of additional subsidized children and incurring additional reimbursable costs equivalent to the amount of subsidized parent fees collected and/or interest income.
- c) Indirect Costs – The School District and other LEA's must provide evidence of administrative services in support of the rate for indirect costs it charged back to the subcontractor.
- d) Rent – Normally rent is supported by a separate School District or other LEA's facility/space use contract with the subcontractor and should **not** be included in the Agreement for Participation.
- e) Additional Rent – Reasonable and supported by documentation from the School District or other LEA; and disclosed in the participation agreement. If not disclosed in the Agreement for Participation, disallow cost.
- f) Participation in the CACFP – Details of participation including the type and category of meals to be provided children.
- g) Promotional considerations and “extras” – Non-reimbursable cost even if it is disclosed in the Agreement for Participation and appears to be reasonable and supported by documentation from the School District or other LEA that these additional inducements to negotiate and execute the Agreement for Participation benefit the children and adults that are served.; and

SUBCONTRACTORS**470****II. GENERAL AUDIT PROCEDURES (continued)****A. School Districts and Other Local Educational Agencies (LEA) (continued)****Agreement for Participation (continued):****6. Basis for Rate Charged in the Agreement for Participation:**

The rate is based on CDP's Standard Reimbursable Rate (SRR). The contractor should base the rate, for each CDP contract for which service is provided, on the **actual cost** for providing services, not on budgeted or proforma data.

7. Rate to be charged for services.

The contract rate is lesser than or equal to, but never greater than, the CDP SRR for certified days of enrollment. This rate is negotiated with the School District or other LEA and becomes an attachment to the Agreement for Participation. School Districts or other LEA's who are charged rates higher than CDP's SRR negotiate a charge-back of indirect costs to offset these higher rates with the subcontractor in the Agreement for Participation.

8. Documentation:

Documentation supporting the above significant terms of the Agreement for Participation and attachments should be retained permanently by both parties and CDD for audit purposes. Lack of record retention shall result in the disallowance of the subcontractor's costs in the Agreement for Participation.

9. Annual Renewal of Agreement for Participation**10. Changes to Agreement for Participation:**

Any changes must be made on addenda attached to Agreement for Participation authorized and signed by both parties.

11. Competitive Bidding Requirement

Subcontract agreements with public agencies.

SUBCONTRACTORS**470****II. GENERAL AUDIT PROCEDURES (continued)****TYPES OF CONTRACTORS (continued)****B. For-Profit and Non-Profit Organizations**

Situations exist where it can be demonstrated to CDD that it is more cost beneficial for CDD and ABE agencies to sub-contract for child care development and adult basic education services with for-profit and non-profit subcontractors. These subcontractors provide direct supervisory and administrative services for managing a child care development and ABE delivery system for a fee negotiated in a management agreement.

Management Agreement

1. The auditor should verify the existence of a contractual agreement signed and documented between the parties; and determine that the Management Agreement includes the following terms and conditions:
 - i) Prior CDD Approval:
(Section 18028, CCR Title 5)

Required for subcontracts exceeding the amount stated in the annual CDP contract's Funding Terms and Conditions. Approval letter from CDD.
 - ii) Start-up

Cost Study supporting the subcontractor as more cost beneficial than contractor.
 - iii) Draft or documentation supporting proposed management services agreement that was submitted for checklist review of its contents, terms, conditions, covenants, language, and clarification of ambiguities by CDD analyst.
 - iv) Rate to be charged for services.
 - v) Basis for the contract rate. Contractor must base contract rate, for each CDP contract for which service is provided, on the **actual cost** for providing services, not on budgeted or proforma data. The basis must be supported by the Cost Study.
 - vi) Invoice to be used by subcontractor for billing services disclosing all terms, rates, indirect costs, and charge-backs that exist in the management agreement.

SUBCONTRACTORS**470****II. GENERAL AUDIT PROCEDURES (continued)****B. For –Profit and Non-Profit Organizaitons****Management Agreement (continued)**

vii) Documentation supporting the above significant terms and conditions must be retained permanently by both parties and CDD for audit purposes. Lack of such documentation shall result in the disallowance of all costs in the annual audit.

2. Annual Renewal:

Currently, CDD approval is no longer required annually on management service agreements provided that:

- i) Subcontract Certification form is attached to the prior management agreement.
- ii) A more detailed review of the management agreement will be performed as part of the subcontractor's contract monitoring process instead through CDD's application process.
- iii) Any changes to be made to the prior management agreement must be referenced to as Addenda to the prior management agreement authorized and signed by both parties.

3. Disclosure of Needs Requirement:

The recitals section of the management agreement shall identify all of the types of child care development and ABE services and the age group of the children and adults to be served under the Funding Terms, Conditions and Assurances of the contracts and grants held by the contractor with the CDD and ABE.

4. Management Fee Limitation:

Fees for direct and administrative services shall not exceed the amounts for each specific CDP and ABE contract and grant as stated in the attachment of the management agreement. The contractor must limit the maximum total amount of management fees that the subcontractor can charge in the agreement period with CDP contract and ABE grant fee documentation in an attachment to the management agreement. Any excess amount paid to the subcontractor as determined in the audit report, shall be returned to the contractor.

SUBCONTRACTORS**470****II. GENERAL AUDIT PROCEDURES (continued)****B. For-Profit and Non-Profit Organizations (continued)****Management Agreement (continued)****5. Subcontractor Leases Facilities:**

When the subcontractor also leases the facilities to the contractor for providing child care development and ABE services, there exists the risk for a conflict of interests resulting from related party transactions regarding the payment of rent to the subcontractor. The auditor shall compare the fair market appraised value of the lease or rental to the actual amount paid by the contractor. The actual amount paid by the contractor cannot exceed the fair market appraisal amount. The excess is a disallowed cost.

6. Competitive Bidding Requirement

In accordance with Section 18029 CCR Title 5, contracts for management services are **not** exempt from competitive bidding. Requests for three (3) competitive bids are required on contracts for management and consultant services every five (5) years.

i) Request for Bid Proposal (RFP)

In the case where a contractor receives child care development and management services from a subcontractor, the contractor is required to submit a request for bid proposals from three (3) child care development management service providers every five (5) years.

ii) Documentation

The contractor should retain documentation of the RFP and results permanently in support of its management service agreement for audit purposes. Lack of such documentation shall result in the disallowance of all cost in the annual audit.

OVERVIEW**480****A. CHILD DEVELOPMENT PROGRAMS****1. Center-Based:**

This service delivery mode encompasses all programs providing direct services to children in licensed centers (including State preschool, SAPID, Migrant, General, latchkey, etc.). All such programs are required to provide age and developmentally appropriate activities for children, supervision, parenting education and parent involvement activities, social services including identification of child and family needs and referrals to appropriate agencies, health services, nutrition, training and career ladder opportunities for staff. Programs must comply with California Code of Regulations (CCR), Title 5, staffing and adult/child ratios which are more stringent than licensing requirements specified in CCR, Title 22 (for Latchkey programs, however, most of the requirements are the same as Title 22). Contractors are reimbursed at a rate per unit of service not to exceed the Standard Reimbursement Rate (SRR) established in Education code Section 8265. This rate includes an allowable amount for administrative costs not to exceed 15 percent of net reimbursable program costs. Center-based contracts include funds earmarked for services to exceptional needs children, for services on college campuses and in satellite family child care homes and, based upon 1997/98 expansion funding, to infants/toddlers and school-age children. Two new programs were added in 1997/98: Literacy Latchkey and the State preschool Full-day Program.

Rates: All service rates are “negotiated” ones not to exceed the Standard Reimbursable Rate (SRR), except for the GSAP contract which is at the SRR.

2. Alternative Payment (APP's):

Often referred to as voucher or certificate programs, APP's pay for the cost of care for services provided in a setting selected by the parent. Services can be provided in a licensed center, a licensed family child care home or in a license-exempt setting (such as in-home care or a family child care provider who cares for the children of only one family in addition to her own). Federal funds also allow for service in a sectarian setting (reimbursable General fund child care and development services cannot include any religious instruction or worship). Providers exempt from licensure must go through a criminal investigation and child abuse registry clearance (Trustline) process and must meet certain health and safety standards. APP's serve an identifiable geographic area and may provide services to families living and/or providers located in this geographic area. APP contracts include funds earmarked for children with exceptional needs, CPS and school-age children. Contractors are reimbursed for payments to providers (based on the RMR Survey ceilings), administration and other related child care costs (ORCCC). Administration and ORCCC are limited to 25 percent (with administration not to exceed

OVERVIEW (continued)**480****A. CHILD DEVELOPMENT PROGRAMS (continued)**

5 percent) of net reimbursable program costs. (Note that this distinction will continue for at least the 1998/99 contract year even though the recently issued federal regulations no longer limit administration for APP's). AB 1542 (Welfare Reform/CalWORKs) created three stages of child care and development programs. Stage 1 is funded by the California Department of Social Services and operated by local county welfare departments which may, in turn, subcontract with local APP agencies. The Department of Education funds Stage 2 and Stage 3. The 1998 Budget Act limits administration and support (currently referred to in the APP contracts and administration and ORCCC) to 75 percent of direct payments to providers. In other words, the earnings in these programs are limited to 80% - provider payments and 20% - administration and support of net reimbursable program costs.

3. Family Child Care Homes:

A number of agencies provide services through a network of family child care homes. Except for staffing qualifications and ratios, family child care home programs must meet the same quality standards as center-based programs. Contractually, family child care home services are provided either through the center-based contract process or under a unique reimbursement structure identified contractually as "Family Child Care Homes." The programs are subject to the Regional Market Rate (RMR) Survey ceilings (rather than a contract rate per unit of service). The agencies with this type of contract are allowed up to 30 percent of net reimbursable program costs for administration (limited to 15 percent) and quality assurance activities (which include services to parents and provides such as lending libraries, resource libraries, training of parents and providers and monitoring of program (quality requirements)).

4. Other Programs:**a. Resource and Referral (R&R):**

Like APPs, R&R programs provide service in defined geographic areas with 60 agencies covering all areas of the State. Unlike the programs described above, R&Rs provide information and referral services to families, providers and the community at large without regard to income or any other eligibility or need criteria and no fees are charged for services. Services provided include referral services for parents seeking child care, assistance to community and public agencies in planning, coordinating and improving child care in the service area, technical assistance to existing and potential providers, data collection and administrative responsibility for the Trustline process required for license-exempt providers.

OVERVIEW (continued)**480****A. CHILD DEVELOPMENT PROGRAMS (continued)****4. Other Programs: (continued)****b. Instructional Materials and Supplies (GIMS):**

The CDE allocates subsidized program improvement funds for agencies to use for purchasing developmentally appropriate durable or consumable curriculum – related instructional materials. No grant is made for less than \$1,000 to center-based programs, family child care home networks and resource and referral agencies currently under contract with CDE's CDD.

c. Health & Safety Training (FBHS):

The CDE allocates program quality improvement funds made available by the Federal Child Care and Development Block Grant, to approximately 60 Resource and Referral agencies to support health and safety training. In 1998/99, allocations ranged from \$1,139 to \$73,000 (Los Angeles area). Resource and Referral agencies arrange for required health and safety training, or provide reimbursement to assist licensed center-based staff, licensed family child care providers, license-exempt child care providers and in-home providers in completing prescribed training on preventive health practices, in accordance with AB243

d. Local Planning Council (FLPC):

The CDE allocates program quality improvement funds made available by the federal Child Care and Development Block Grant, primarily to county offices of education, to support Local Child Care Planning Councils (LCCPC). LCCPCs assess and prioritize local child care needs of families who are seeking or are receiving subsidized and/or non-subsidized services, and make recommendations to the CDE on local priorities in the allocation of state and federal child care and development funds.

e. Campus With Match (GCAM):

The CDE allocates general funds to colleges and universities providing child care services to children of students attending the school at which the program is located on campus. Colleges and universities must match these funds with at least 25% of their own local funds.

See **APPENDIX C.**

OVERVIEW (continued)**480****A. CHILD DEVELOPMENT PROGRAMS (continued)****4. Other Programs: (continued)****F. Campus Without Match (GCTR):**

Same as General fund Programs, GCTR, without a local matching of local funds requirement.

g. Prototype:

OVERVIEW (continued)**480****B. ADULT BASIC EDUCATION**

The Adult Basic Education program offers quality instruction for adults in authorized program areas (elementary and high school basic skills, English as a second language, immigration education, parenting, programs for substantially handicapped adults, vocational education, programs for older adults, home economics, health and safety) that will:

- Enable adults to acquire the knowledge and skills necessary to participate effectively in today's economy and society;
- Help adults to achieve their fullest potential; and
- Help adults pursue their changing individual learning goals in an educational segment that specializes in noncollegiate subject matter.

COMPLIANCE TESTING ATTRIBUTES**490****CENTER PROGRAMS****1. GCTR AND GCAM****GENERAL FUND PROGRAMS (GCTR):**

Child Protective Services (CPS) families are exempt from fees and the income ceiling (75 percent of the state median income).

Eligibility	Need	Priority
Public assistance At or below 75%* Homeless CPS Child under 14 Exceptional needs to 22	CPS Employed Seeking employment Training Seeking Housing Incapacity Child's special need	CPS first, then lowest Per capita income (if equal, then longest time on waiting list)

***Children** enrolled in General Fund programs as of 12/31/97 are "grandfathered" up to 100 percent of the state median income as long as all other need and eligibility requirements in effect on 12/31/97 continue to be met.

CAMPUS PROGRAMS (GCAM):

Campus with Match programs must provide a local match of at least 25% of CDE funds pursuant to Education Code and Budget Act language.

Eligibility	Need	Priority
Sam as GCTR	Same as GCTR	Children of students admitted first in accordance with priorities for GCTR

COMPLILANCE TESTING ATTRIBUTES (Continued)**490****CENTER PROGRAMS (continued)****2. GHUD****HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS (GHUD):**

Eligibility	Need	Priority
Same as GCTR	Same as GCTR	First priority is for residents, residents with children occupying Assisted Unit (lowest income first, if equal income, special needs first), then other resident then GCTR priorities

3. GPRE**PRESCHOOL PROGRAMS (GPRE):**

Other than the child's age and family income, there are no other requirements and no fees are charged. CPS families are exempt from the income ceiling. These are part-day programs.

Eligibility	Need	Priority
Pre-K, ages 3 –5 and income ceiling	None	CPS, then 4-year olds, lowest income first, if income is equal, then priorities as specified in the FT&C in an order determined by the agency.

COMPLILANCE TESTING ATTRIBUTES (Continued)

490

CENTER PROGRAMS (continued)**4. GWAP****STATE PRESCHOOL FULL-DAY PROGRAMS (GWAP):**

This program (started 1/1/98) is intended to provide full-day services. Children already enrolled in State preschool programs were transferred to the new full-day programs. For the portion of the day the child is in a regular center program, General Fund Center Program need criteria must be met (note that income eligibility for State Preschool automatically meets income eligibility for the center portion). If a vacancy occurs, a child would be enrolled in accordance with State Preschool priorities. Because the program is intended to provide full-day service, part time enrollments are not allowed.

5. GHAN**SEVERLY HANDICAPPED PROGRAMS (GHAN):**

There are six programs in the Bay Area. These are part-day programs and no fees are charged.

Eligibility	Need	Priority
Child is severely handicapped	None	None

6. GMIG AND GMSS**MIGRANT PROGRAMS (GMIG):**

Additional funds are provided for supplemental services as described in Education Code Section 8232. These funds must be spent but need not be earned through srvice (GMSS contracts).

Eligibility	Need	Priority
First, the family must have earned at least 50 percent of it's total gross income from employment in fishing, agriculture or related work during the 12 months immediately preceding the date of application, THEN same as GCTR.	Same as GCTR	First priority if the family that moves from place to place, then the family that has moved within the past five years and is dependent upon seasonal agriculture work.

COMPLILANCE TESTING ATTRIBUTES (Continued)**490****CENTER PROGRAMS (continued)****7. GLTK****LATCHKEY PROGRAMS (GLTK):**

Unless a waiver has been granted, 50 percent of the children enrolled must be full cost children. Exceptional needs students are to be served in the same percentage that is residing in the district and receiving special education services. Unless the contractor has received a waiver, no more than 50 percent of total net program costs are reimbursable.

Eligibility**Need****Priority**

Same as General fund
Child must be school age

Same as General fund

CPS the K-3 and
their school-age
siblings under
13, then grades 4-9

8. GLIT**LITERACY LATCHKEY PROGRAMS (GLIT):**

Although need, eligibility and priority are the same as the original Latchkey Program, the new Literacy Latchkey Program differs in the following ways: (1) eligibility is presumed if the child attends the school where the program is located; (2) **no fees** are charged, (3) renewal is contingent upon demonstration of compliance with requirements for collaborative efforts, implementation of quality programs including a strong literacy component, employment of CalWORKs recipients who are parents of children enrolled and generation of local resources; (4) **reimbursement is not limited to 50 percent of net program costs**; and (5) contractors are encouraged to hire parents of children participating in CalWORKs as well as siblings of children participating (parents may be counted in meeting staffing ratios but not siblings).

9. GSAP**SCHOOL-AGE PARENT AND INFANT DEVELOPMENT PROGRAMS:**

Children have no minimum or maximum age to be served and may remain in the program as long as the parent is participating. In addition to care for children, parenting education and practicum courses are provided to pregnant students, parents and nonparent students. **No fees are charged.**

COMPLILANCE TESTING ATTRIBUTES (Continued)**490****CENTER PROGRAMS (continued)****9. GSAP (continued)**

Eligibility	Need	Priority
Parents must be students in Grade 7 or 8 or enrolled in school working toward a Diploma. Pregnant students must be enrolled in high school.	None	Locally established

10. FCTR**CHILD CARE AND DEVELOPMENT FUND PROGRAMS (FCTR):**

CPS may be exempted from the income ceiling and the payment of fees based upon the recommendation of the protective services worker.

Eligibility	Need	Priority
At or below 75% Child under 13 Incapacity to 18	CPS Employed Job training & ed. Seeking employment Incapacity of other adult	Same as GCTR but if equal, family with special needs child is first. Ten percent must be exceptional needs children unless a waiver has been granted by CDD

11. FHUD**HOUSING AND URBAN DEVELOPMENT (FHUD):**

Eligibility	Need	Priority
Same as FCTR	Same as FCTR	Same as GHUD

COMPLILANCE TESTING ATTRIBUTES (Continued)

490

ALTERNATIVE PAYMENT PROGAMS**1. GAPP and GCPS****GENERAL FUND PROGRAMS (GAPP):**

CPS families are exempt from income ceiling and fees. Agencies are allowed 25 percent of net reimbursable program costs for administration and other related child care cost (administration cannot exceed 5 percent). Agencies are reimbursed for the cost of care provided, not to exceed 1.5 standard deviations based on the Regional Market Rate Survey.

Eligibility	Need	Priority
Public assistance at or below 75%*	CPS	CPS first, then lowest per capita income (if equal, then longest on the waiting list)
Homeless	Employed	
CPS	Seeking employment	
Child under 14	Training	
Exceptional needs to 22	Seeking housing	
	Incapacity	

***Children** enrolled in General Fund programs as of 12/31/97 are “grandfathered” up to 100 percent of the state median income as long as all other need and eligibility requirements in effect on 12/31/97 continue to be met.

2. FAPP and FCPS**CHILD CARE AND DEVELOPMENT FUND PROGRAMS (FAPP):**

CPS may be exempted from the income ceiling and the payment of fees based upon the recommendation of the protective services worker. Agencies are allowed 25 percent of net reimbursable program costs for administration and other related child care costs (administration cannot exceed 5 percent). Agencies are reimbursed the cost of car provided that they do not exceed 1.5 standard deviations based on the Regional market Rate Survey.

COMPLILANCE TESTING ATTRIBUTES (continued)**490****ALTERNATIVE PAYMENT PROGAMS (continued)****2. FAPP and FCPS (continued)**

Eligibility	Need	Priority
Income at or below 75%	CPS	CPS first, then lowest
Children under 13	Employed	per capita income (if
Incapacity to 18	Job training and education	income is equal,
	Seeking employment	family with special
	Incapacity of other adult	needs children are
		first.)
		Ten percent must be
		exceptional needs
		children unless
		waived by CDD

3. CalWORKs STAGES:**Stage 2**

Agencies are allowed 25 percent of direct payments to providers for administration and support services under the 1999 Budget Act equivalent to 80 percent of net reimbursable program costs). Agencies are reimbursed for the cost of care provided not to exceed 1.5 standard deviations based on the Regional Market Rate Survey.

A family remains eligible for up to 24 months after the family is no longer receiving or eligible to receive CalWORKs assistance as long as the family is income eligible for subsidized child care. The 24-month period begins when either the family leaves cash aid or January 1, 1998, whichever is later, and covers both Stage 1 and Stage 2 child care. If the family cannot be transferred to a Stage 3 Set aside slot or a non CalWORKs program within this 24-month period, the family loses its eligibility and must compete with other non-CalWORKs families in the broader child care and development system. If there is a need for CPS, the family must be transferred to a non-CalWORKs program as soon as possible.

COMPLIANCE TESTING ATTRIBUTES

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3. CalWORKsSTAGES: (continued)**Stage 2 – General fund (G2AP) (continued)**

Program requirements are the same as GAPP (e.g., sectarian care is prohibited).

Eligibility	Need	Priority
Local County welfare department (CWD) determines family's work or approved work activity is stable; former CalWORKs recipient; receiving lump-sum diversion payment or services. Eligible up to 24 months after no longer receiving aid. At or below 75% Child under 14 Exceptional needs to 22	Parent must be in approved work activity. Other adult may be employed, seeking employment, in training or incapacitated (unless also a parent of the child) A former aid recipient and other adult in family may be employed, seeking employment, in training or incapacitated	As referred by CWD

2. Stage 2 – Federal Fund (F2AP)

Eligibility	Need	Priority
Same as G2AP Child under 13 Incapacity to 18	Same as G2AP <u>except</u> for former aid recipient, only another adult (not the recipient) may be incapacitated	Same as G2AP

Stage 3

Agencies are allowed 25 percent of direct payments to providers for administration and support services (1998 Budget Act) and administration cannot exceed 5 percent). Agencies are reimbursed for the cost of care provided, not to exceed 1.5 standard deviations based on the Regional Market Rate Survey.

COMPLILANCE TESTING ATTRIBUTES (continued)

490

3. CalWORKs STAGES: (continued)**Stage 3 (continued)****Stage 3 General Fund (G3AP)**

Program requirements are the same as GAPP (e.g., sectarian care is prohibited).

Eligibility	Need	Priority
CalWORKs recipient, former CalWORKs recipient, receiving lump-sum diversion payment same as GAPP or services at or below 75% Child under 14 Incapacity to 22	Must be in work activity to enter Stage 3; once in same as GAPP expires	Least time left before 24-month eligibility expires

After initial enrollment in Stage 3, the family may continue to be served in Stage 3 as long as the income ceiling is not exceeded, the GAPP age limit is not reached and GAPP need criteria are met (same as F3AP except that parent may also be incapacitated and need may be based on the special need of the child).

Stage 3 – Federal Fund (F3AP)

Program requirements are the same as FAPP (e.g., sectarian care is allowed through use of certificates).

Eligibility	Need	Priority
CalWORKs recipient, former CalWORKs recipient, receiving lump-sum diversion payment or services At or below 75% Child under 13 Incapacity to 18	Must be in a work activity to enter Stage 3; once in, same as FAPP	Least time left before 24 month eligibility expires

After initial enrollment in Stage 3, the family may continue to be served in stage 3 as long as the income ceiling is not exceeded, the FAPP age limit is not reached and FAPP need criteria are met (adds CPS).

COMPLIANCE TESTING ATTRIBUTES (continued)**490****FAMILY CHILD CARE HOMES (70/30)****GRCC and FFCC****Family Child Care Homes (70/30)**

The need and eligibility for these programs are dependent upon the funding source (General fund/GFCC or Child Care and Development Fund/FFCC). Agencies are allowed 30 percent for administration and quality assurance activities (administration cannot exceed 15 percent and quality assurance activities include services to parents and providers such as lending libraries, resource libraries, training of parents and providers and monitoring of program quality requirements). Agencies are held to the same program quality standards as center programs but operate under the Regional Market Rate Survey ceilings for reimbursement purposes. (Note: Services are also provided in Family Child Care Homes through center contracts and agencies are reimbursed on a rate per unit of service basis).

OTHER PROGRAMS**1. GFRR and FBRR****Resource and referral (R&R) Programs:**

Auditors should test R&R database sales to ensure that such revenue is reported as program income.

FBRR – (CCDF) – 14 month – 5/1/98 – 6/30/99 (CDD – Block Grant – Quality) (CCDF – Quality Improvement R&R/Qtr 1.)

2. FBHS – (CCDF) (One time only Program)**Health & Safety Training (FBHS)**

These one-time only funds are available for expenditure for training activities during the period of May 1, 1998 to June 30, 1999, under the following terms and conditions outlined in AB243, Title 22, Division 12:

- At least one director or teacher at each day care and each licensee of a family childcare home shall have 15 hours of training in preventative health training. (For purposes of this contract licensed exempt and in-home providers are also eligible).

COMPLILANCE TESTING ATTRIBUTES (continued)**490****OTHER PROGRAMS (continued)****2. FBHS – CCDF (One time only Program) (continued)****HEALTH & SAFETY TRAINING (FBHS)**

- The training shall include pediatric and cardiopulmonary resuscitation (CPR), pediatric first aid, prevention of infectious disease and prevention policies, preventative health practices and injury prevention.
- The training may include nutrition, child abuse identification and prevention, children with special health care needs, care of the mildly ill child, and disaster preparedness.
- The pediatric CPR, pediatric first aid must take from an approved Emergency Medical Services Authority (EMSA) training institution or trainer, as specified in legislation.

This contract is funded through a grant from the Federal Department of health and Human Services and subject to Code of Federal Regulations (CFR) 45, Part 98, and Public law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. The Catalogue of Federal Domestic Assistance (CFDA) fund title is Child Care and Development fund (CCDF) and the CFDS number is 93575.

Program requirements include the following:

ELIGIBILITY

- Licensed center-based staff licensed family child care providers, license-exempt child care providers and in-home providers on first come first served basis.
- Providers seeking CPR re-certification.

Each eligible participant may receive up to \$65.00/year toward payment for completed classes or course work. In no case shall a grant exceed the actual costs incurred. Each participant shall pay at least \$5.00 co-pay for each training segment.

COMPLILANCE TESTING ATTRIBUTES (continued)**490****OTHER PROGRAMS****ELIGIBILITY (continued)**

Administrative costs shall not exceed 15 percent of the total expenditures reported and may include:

- Employee salaries and benefits
- Telephone
- Printing and duplicating
- Postage
- Supplies

Up to 10 percent of your Health and Safety Training contract can be used for training support and outreach activities which may include but are not limited to the following:

- Advertising grant availability
- Advertising training sessions
- Issuing vouchers
- Working with authorized trainers and training institutions to set up courses.
- Coordinating with other community agencies (i.e. community colleges).
- First aid/safety training books
- First aid/safety training videos
- Provider incentives for attendance (i.e., CPR mouth mask; priority registration for future training; health and safety resource books).

The balance of all funds not used for administration or outreach activities is to be used to support training activities for the targeted provider groups.

3. GMIS – INSTRUCTIONAL MATERIALS AND SUPPLIES

(Child Development Accounts Payable/96/CO PCA: 03220)

(Child Development Instructional Materials PCA: 03224)

COMPLILANCE TESTING ATTRIBUTES**490****OTHER PROGRAMS (continued)**

Please Note: The period of performance for the following GIMS contracts crosses fiscal years and extends into the current audit period:

<u>Fiscal Years</u>	<u>Contract Numbers</u>	<u>Period of Performance</u>
98/99	GIMS-8000-8738	07-01-98 to 06-30-99

4. GRPM**RENOVATION AND REPAIR**

Please note: The period of performance for the following GRPM contracts crosses fiscal years and extends into the current audit period:

<u>Fiscal Years</u>	<u>Contract Numbers</u>	<u>Period of Performance</u>
98/99-99/00	GRPM-8000-8113	11-01-98 TO 12-31-99
97/98-98/99	GRPM-7000-7313	06-15-98 TO 06-30-99

5. FLPC – (CCDF)**LOCAL PLANNING COUNCILS**

(CCDF Disc-Local Plan Cncls (Prov7BB) PCA: 03946)

(CCDF Disc-Local Plan Cncls (Prov7BB) PCA: 03947)

Please note: The period of performance for the following Local Planning Council contracts crosses fiscal years and extends into the current audit period:

<u>Fiscal Years</u>	<u>Contract Numbers</u>	<u>Period of Performance</u>
96/97-97/98-98/99	FLPC-7001-7060	Extended to 06-30-99
97/98-98/99	FLPC-7061	06-01-98 to 06-30-99
98/99	FLPC-8000	07-01-98 to 06-30-99

COMPLILANCE TESTING ATTRIBUTES**490****OTHER PROGRAMS (continued)****Local Planning Council Contract PCAs:**

Contract Numbers	PCAs
FLPC-7001-7060	03780, 03781, 03782, 03783
FLPC-7061	03780, 03781, 03782, 03783
FLPC-8000	03780, 03781, 03782, 03783

This contract is funded through a grant from the Federal Department of Health and Human Services and subject to code of Federal Regulations (CFR) 45, Part 98 and Public Law, 104-193, the personal Responsibility and Work Opportunity Reconciliation Act 9PRWORA) of 1996. The Catalogue of Federal Domestic Assistance 9CFDS) fund title is Child Care and Development fund (CCDF) and the CFDS number is 93575.

6. FQU1 – (CCDF)**CONSORTIA**

Consortia contracts are “Activity” driven. There must be activities documenting accomplishments and linkages to substantiate expenditures.

Consortia groups focus on staff development, broadening membership, and program quality improvement activities. The emphasis is to stimulate the consortia in expansion of state preschool and general child care (infants and toddlers) programs. These agencies would highly benefit from the expertise and knowledge they will gain from becoming a member of their local CDD program quality consortia.

Use of funds

Expenditures should not conflict with any regulation, statue, or conditions specified by the contract agreement. In particular, consortia funds can not be used to pay: 1) a salary or fee to members performing regular duties (such as taking minutes, coordinating meetings, etc.); and purchase food/beverages for meetings or conference events. These types of expenses should be obtained through outside fund raising, or donations. Consortia members requesting reimbursement for meals, travel expenses, and per diem rates are subject to travel rules administered by the Department of Personnel Administration’s California State Travel Program Reimbursement Rates, effective 01/01/99.

COMPLILANCE TESTING ATTRIBUTES**490****OTHER PROGRAMS (continued)**

This contract is funded through a grant from the federal Department of Health and Human Services and subject to code of Federal Regulations (CFR) 45, Part 98, and Public law 104-193, the personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. The Catalogue of Federal Domestic Assistance (CFDA) fund title is Child Care and Development Fund and the CFDA number is 93575.

The CDD Desired Results Program Evaluation system project continues to progress and be refined. Pilot studies of the Desired Results instruments, program standards, and child assessment tools are under way and will continue through 1999.

SPECIAL AUDIT INSTRUCTIONS**491****(Reference to Appendix B)****Before and After School Start-Up (Federal Funds)**

Any apportionments that any agency has received or is scheduled to receive under Before and After School Start-Up (also known as Before and After School Child Supervision), federal monies are to be used to offset reimbursable expenditures incurred during the period 10/01/XX – 09/30/XX. A Audited Final Reimbursement Calculation (AFRC) is to be prepared for the entire contract period even if the expenditures were incurred in two fiscal years. Also, the auditor must state in a footnote on the AFRC whether the amount shown was expended in accordance with the agreement with CDD.

If apportionments were used to offset only reimbursable expenditures during the fiscal year being audited, then the apportionments are to be listed as restricted income on the agency's major AFRC. Also, the auditor must state in a footnote on the AFRC whether or not the amount shown was expended in accordance with the agreement with CDD.

Local Coordination Grants

Any apportionments that an agency has received or is scheduled to receive under Local Coordination Grants are to be used to offset reimbursable expenditures incurred during the period being audited. A AFRC is to be prepared for the entire contract period even if the expenditures were incurred in two fiscal years. Also, the auditor must state in a footnote on the AFRC whether the amount shown was expended in accordance with the agreement with CDD.

One-Time Only Program Supplement

Any apportionments that an agency has received or is scheduled to receive under a One-time Only Program Supplement are to be used to offset reimbursable expenditures incurred during the period 07/01/XX – 06/30/XX. The apportionments used to offset reimbursable expenditures under this grant are to be listed as restricted income on the agency's major AFRC. Also, the auditor must state in a footnote on the AFRC whether the amount shown was expended in accordance with the agreement with CDD.

Preschool Career Incentive Grants

Any apportionments that an agency has received or is scheduled to receive under a State Preschool Career Incentive Grant are to be used to offset reimbursable expenditures incurred during the period 07/01/XX – 06/30/XX. The apportionments used to offset reimbursable expenditures under this grant are to be listed as restricted income on the agency's major AFRC. Also, the auditor must state in a footnote on the AFRC whether the amount shown was expended in accordance with the agreement with CDD.

SPECIAL AUDIT INSTRUCTIONS (continued)
(Reference to Appendix B)**491****R&R GAIN (Federal Funds)**

Any apportionments that an agency has received or is scheduled to receive under PCA No. 03476 or PCA No. 03561 R&R GAIN Federal (10/01/XX – 09/30/XX) are federal monies and are to be used to offset reimbursable expenditures incurred during the period 10/01/XX – 9/30/XX.

Any apportionments used to offset reimbursable expenditures incurred during the current fiscal year are to be listed as income on the agency's major AFRC. Also, the auditor must state in a footnote on the AFRC: (1) the total expenditures for the entire contract period, even if the expenditures were incurred in two fiscal years; (2) which county the expenditures incurred in (agencies serving multiple counties were awarded separate apportionments per county); and (3) whether or not the amount shown was expended in accordance with the agreement with CDD.

Maintenance of Effort

Maintenance of Effort (MOE) funds are disbursed directly by County welfare departments to agencies in order to provide child care services.

MOE funds are generally administered under two types of contracts: 1) MOE funds which require agencies to specifically identify children served; and 2) MOE funds spent for the benefit of all children. The auditor must review an agency's MOE contract to determine which type of contract is being administered. Regardless of the type of contract administered by an agency, costs associated with MOE funds should be reported in the "Total Costs" section of an agency's AFRC.

If MOE funds were received for specifically identified children, these children must be reported as non-certified. The actual adjusted day/hours of enrollment for these children must be included in the agency's SOAC on line "Total Actual Adjusted Days/Hours of Enrollment (All Children)." MOE funds under this type of contract are not to be reported as revenue on the agency's AFRC.

If MOE funds are for the purpose of paying expenses that benefit all children, then MOE funds are to be reported on the agency's AFRC. These funds are reported in the Nonreimbursable Costs section of the AFRC as "Costs in section 1.a. Paid from Funds not listed in 1.B. (specify)".

ADULT BASIC EDUCATION PROGRAM**495****PURPOSE:**

The purpose of this audit is to fulfill compliance requirements in accordance with Government Auditing Standards and OMB circulars A-133 and A-110. This program represents a minimum compliance review. It excludes those areas covered in the financial or internal control portions of the single audit. It also excludes those regulations tested during the Department of Education's program review. These reviews are performed on 20% of the grant recipients in a fiscal year.

BACKGROUND:

The Adult Basic Education program offers quality instruction for adults in authorized program areas (elementary and high school basic skills, English as a second language, immigration education, parenting, programs for substantially handicapped adults, vocational education, programs for older adults, home economics, health and safety) that will (1) enable adults to acquire the knowledge and skills necessary to participate effectively in today's economy and society; (2) help adults to achieve their fullest potential; and (3) help adults pursue their changing individual learning goals in an educational segment that specializes in noncollegiate subject matter.

AREAS OF GREATEST RISK:

- Is instruction really being provided in the areas covered by the program?
- CBO employees tend to avoid regional training classes. Therefore, their record keeping may be inadequate and their claims may be incorrectly prepared.
- Because program reviews are not performed on every grant recipient, every year, the possibility exists that certain program provisions may not be met. The auditor must use judgement in determining when additional procedures would be necessary to reduce the risk of noncompliance.

ADULT OBJECTIVES:

To form an opinion on the agency's adherence to compliance requirements and to determine the effect of any noncompliance on the financial statements.

CRITERIA:**FEDERAL**

Adult education Act, PL 100-297

Code of Federal Regulations Title 34, Chapter 4 part 461

Office of Management and Budget Circulars A-110 and A-133

STATE

Education Code, applicable sections Chapters 2,3,5,10, and 12.

California Code of Regulations title 5, Sections 404, 10508, 10560

Adult Education handbook for California

COMPLIANCE TESTING ATTRIBUTES**495****I. OBJECTIVE**

To determine that instruction is being provided in the areas covered by the Adult Basic Education (ABE) program in accordance with the ABE program general assurances;

To apply judgement in determining when additional procedures would be necessary to reduce the risk of noncompliance; and

To form an opinion on the agency's adherence to compliance requirements and to determine the effect of any noncompliance on the financial statements, based on the following:

CRITERIA:**FEDERAL**

Adult Education Act, PL 100-297

Code of Federal Regulations Title 34, Chapter 4 part 461

Office of Management and Budget Circulars (A-110 and A-133)

STATE

Education Code, applicable Sections 8500, 52500 and 78401, Chapters 2,3,10 and 12

California Code of Regulations title 5, Sections 404, 10508, 10560

Adult Education Handbook for California

II. GENERAL AUDIT PROCEDURES**I. Compliance with Adult Education Program General Assurances**

A. Read the Application for funding for the description of programs, activities and services:

- 1.) Determine if these are being provided
- 2.) Check for large transfers of funds from allowable program accounts to other program accounts.
- 3.) Check revenue sources to determine that fees are not being charged for federally funded programs. Students fees for instruction or related supplies are not allowed.

B. Test effectiveness of programs:

- 1) Determine whether goals, as stated in application, have been met.
- 2) Compare proposed output/outcome to actual.

COMPLIANCE TESTING ATTRIBUTES**495****II. GENERAL AUDIT PROCEDURES (continued)**

- C. Review the student record keeping system:
- 1) Determine whether the records supply enough information to calculate the HHU (Hundred Hour Units) report on the final claim form and the Program Activity and Expenditure Report.
 - 2) Sample attendance documents to determine that:
 - a) Hours for ad hoc or laboratory class settings are recorded separately from regular class instruction hours
 - b) Students attend a minimum of 12 hours before the hours are included in claimed HHU's.
 - 3) Determine whether the student population support the number of HHUs reported on the "Data Projections" page of the application.
- D. Assure the programs, services, or activities under other Federal, State and local programs are not duplicated with:
- Job Training Partnership Act
 - Carl D. Perkins Vocational Act
 - Applied Technology Education Act
 - Rehabilitation Act of 1973
 - Individuals with Disabilities Education Act
 - Indian Education Act
 - Higher Education Act
 - Domestic Volunteer Service

COMPLIANCE TESTING ATTRIBUTES**495****II. GENERAL AUDIT PROCEDURES (continued)****II. Compliance with OMB Circulars A-133, “Compliance Supplement”, and A-110**

- A. Review the year end expenditure report for allowable costs:
 - 1) Local administrative costs may not exceed 5% of the award unless the State has determined that a higher percentage is reasonable and necessary. 95% of federal funds must be applied to the program. (OMB circular A-133 4-84.002-4) and (34CFR 461.40b).
 - 2) Indirect costs should not be reimbursed
 - 3) Determine if program funds were used to acquire equipment and if that equipment is being used for that or a related program. (OMB Circular A-110)
 - 4) Confirm that expenditures were charged to the appropriate fiscal year. (**No** carryover of expenditures is allowed).
- B. Verify that reporting requirements have been met:
 - 1) Agencies must prepare a mid-year and a close-out report for CDE.
 - 2) Federal reporting requirements are:
 - a) Financial Status Report (FSR), SF – 269A (short form)
 - b) Payment Management System, quarterly report, PMS – 272
 - 3) Select one of each type of report; trace the amounts reported to:
 - a) Accounting Records;
 - b) Audited Financial Statements; and
 - c) The Schedule of Expenditures of Federal Awards
- C. Determine if the agency subcontracts with a for-profit entity. If so:
 - 1) Review the contract between the agency and the entity.
 - 2) Verify that the entity makes a significant contribution to attaining the objectives of the agency.
 - 3) A copy of the subcontract should be included in Section 2 of the “Application for Funding”.

COMPLIANCE TESTING ATTRIBUTES**495****II. GENERAL AUDIT PROCEDURES (continued)**

Sample Results

Total estimated population: _____

Sample size: _____

Actual attributes tested: _____

No. of errors in sample: _____

Expected error rate: _____

Tolerable error rate: _____

Actual error rate achieved: _____

Additional testing required? Yes No

Adjusted Monthly income – total countable income minus verified child support payments paid by the parent whose child is receiving child development services. Except for child support payments paid by the parent, monthly income is not adjusted for voluntary or involuntary deductions. When income fluctuations occur, the adjusted monthly income shall be computed by averaging the total adjusted income received during the 12 months immediately preceding the month in which the application for services is signed or updated.

Adjustment factors – pursuant to Education code Section 8265.5, factors applied to an agency's reported child days of enrollment to reflect the additional expense of serving children who meet the specified criteria (infants, toddlers, children with exceptional needs, severely handicapped children, children at risk and limited-English-proficient children two years of age through Kindergarten).

Administrative costs (for direct service contractors) – costs incurred for administrative activities where neither the family, the child nor, if applicable, family child care homes service providers directly benefit from the activity.

Approved work activity – An activity contained in the parent's welfare-to-work plan as described and further defined in Welfare and Institutions code Section 11322.6 et seq. And may include: (1) unsubsidized employment; (2) subsidized private sector employment; (3) subsidized public sector employment; (4) work experience; (5) on-the-job training; (6) grant-based on-the-job training; (7) supported work or transitional employment; (8) work-study; (9) self-employment; (10) community service; (11) adult basic education; (12) job skills training directly related to employment; (13) vocational education and training; (14) job search and job search assistance; (15) education directly related to employment; (16) satisfactory progress in secondary school or in a course of study leading to a GED; (17) mental health, substance abuse and domestic violence services; or (18) other activities necessary to assist an individual in obtaining unsubsidized employment.

Certificate – check or other disbursement that is issued by the contractor directly to a parent who may use the certificate only as payment for child care services. Nothing precludes the use of the certificate for sectarian child care services in CCDBG/CCDF funded programs if freely chosen by the parent. A child care certificate is assistance to the parent, not assistance to the provider.

Certified children – children eligible to be served in child care and development programs funded by the California Department of Education.

Certify eligibility – the formal process the contractor goes through to collect information and documentation to determine that the family and/or child meets the criteria for receipt of subsidized child development services.

Child day of enrollment – a full-time equivalent day of service to an eligible child. "Full-time" is 6 ½ hours for direct service programs. APPs and FCCH (70/30) are subject to the Regional Market Rate Survey ceilings and full-time is 6 hours.

Child development fund – the restricted fund used by the contractor to account for contract funds and related net reimbursable program costs.

Child protective services – children receiving protective services through the local county welfare department as well as children identified by a legal, medical, social service agency or emergency shelter as abused, neglected or exploited or at risk of abuse, neglect or exploitation.

Children with exceptional needs – children who have been determined to be eligible for special education and related services by an individualized education program team according to the special education requirements contained in Part 30 (commencing with Section 56000), and meeting eligibility criteria described in Section 56026 and Sections 56333 to 56338, inclusive, and Sections 3030 and 3031 of Title 5 of the California Code of Regulations. These children have an active individualized education program, and are receiving appropriate special education and services, unless they are under three years of age and permissive special education programs are available. These children may be developmentally disabled, retarded, hard of hearing, deaf, speech impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, other health impaired, deaf-blind, multihandicapped or children with specific learning disabilities, who require the special attention of adults in a child care setting.

Children with special needs (in General Fund programs) – infants and toddlers under the age of three; limited-English-proficient children; children with exceptional needs; limited-English-proficient handicapped children and children at risk of abuse, neglect or exploitation.

Children with special needs (in CCDF programs) – children that are limited-English-proficient, children with exceptional needs, severely handicapped children or child protective services children.

Child's special need – medical or psychiatric need, including exceptional needs, which cannot be met without the provision of child care and development services verified by a legally qualified professional.

Co-payment – any usual and customary provider charges above the allowable rate (1.5 standard deviations from the mean market rate for the type of care provided) which are paid by the parent directly to the provider.

Commingled child care services – the provision of services to both subsidized and nonsubsidized children in the same classroom at the same time.

Declaration – a written statement signed by a parent under penalty of perjury attesting that the contents of the statement are true and correct to the best of his or her knowledge.

Depreciation – a cost in the current fiscal year that is based on acquisition costs, less any estimated residual value, computed on a straight line method (based on the normal, estimated useful life expectancy of the asset). Depreciation cannot be claimed on land, donated assets or assets purchased with public funds (see use allowance).

Disallowed costs – costs which have been incurred but are not reimbursable because they are not reasonable and/or necessary for the performance of the contract.

Earned – for APPs, net reimbursable program costs of which at least 75 percent must be payments for direct services, no more than 25 percent may be for administrative and other related child care costs (ORCCC) together and no more than 5 percent can be for administrative costs alone. Pursuant to the 1998 Budget Act, administration and support costs (or ORCCC) in CalWORKs programs cannot exceed 25 percent of direct payments to providers.

Family Fee – the fee determined from the fee schedule prepared and issued by the CDD. The fee is determined based upon the family's adjusted monthly income and family size. The fee is assessed and collected based which child in the family is enrolled for the longest period. Fees collected must be pro-rated if the family is served in both federal and state funded programs.

Family size – determined by the number of adults and children related by blood, marriage or adoption who comprise the household in which the child is living. When an adult living in the household is neither the parent of the child nor the spouse of the parent, the adult and the adult's children, if any, are excluded from the calculation of family size when such an exclusion is to the advantage of the family. When a child is living with adult(s) other than a natural or adoptive parent, the child is considered a family of one. In such instances, a need criterion must be met by the caretaker of the child.

Full signature – legal signature of the individual (e.g., signature normally used on checks and other documents). If the individual is not literate in written English, the individual may sign with an "X" which must be initialed by the contractor's authorized representative.

Full-cost families/children – families and children receiving child care and development services not funded by the CDE.

Indirect cost – an expense that cannot be readily assigned to one specific program or one specific line item within a program.

Legally qualified professional – a person licensed under applicable laws and regulations of the State to perform legal, medical, health or social services for the general public.

Maximum reimbursable amount – the total dollar amount of a contract (the maximum an agency can receive from the State).

Minimum days of operation – number of days an agency must provide services to subsidized children (or, for APPs, the office is open) as specified on the contract facesheet. If the contractor fails to provide at least 98 percent of the MDO, the MRA will be reduced proportionately.

Net reimbursable program costs – the portion of the actual and allowable net costs, which are incurred in the provision of child care and development services for subsidized children.

Nonreimbursable costs – costs that are not reimbursable under the child care and development contract including contributions, entertainment, fines, idle facilities, fund raising, public relations consultant fees, income taxes, bonuses unless part of a collective bargaining agreement and most consumer interest.

Nonsubsidized families/children – families and children receiving child care and development services not funded by the CDE.

Other related child care costs – "Other related child care costs" (ORCCC) means the costs of providing direct services. ORCCC include such things as the position (or portion of a position) responsible for recruitment, site inspection and license verification; the position (or a portion of a position) responsible for eligibility determination and recertification; the position (or portion of a position) responsible for review and supervision of placements; and the costs (including indirect costs) related to these positions.

Parent – any person living with a child who has responsibility for the care and welfare of the child.

Parental incapacity – the ability of the child's parent(s) to provide normal care for the child is significantly limited.

Prototype – new contracting system implemented on a test basis conducted by CDE over a two year period ending June 30, 1999 for no more than five percent (5%) of child care and development contractors. An independent evaluation will be conducted of the prototype and reported to the legislative budget committee in the year 2000.

Reasonable and necessary costs – expenditures that, in nature and amount, do not exceed what an ordinarily prudent person would incur in the conduct of a competitive business.

Regional Market Rate Survey – an annual survey of what providers charge for various types of child care, conducted by the California Child Care Resource and Referral Network. Programs are allowed to reimburse providers up to 1.5 standard deviations from the mean cost of care for the type of care provided.

Registration – a 28 day limited payment authorization for license-exempt providers consisting of providing the contractor with name and address, date of birth, social security number, amount of service to be provided and rates to be charged. To continue authorization, providers (except for grandparents, aunts and uncles and providers previously exempted from TrustLine because the provider was not compensated) must also complete a health and safety self-certification and the Trustline application process within 14 calendar days of the first day of service.

Restricted income – income which may only be expended for specific limited purposes.

Quality assurance – activities including services to parents and providers such as lending libraries, resource libraries, training of parents and providers and monitoring of program quality requirements (Family Child Care Homes under RMR Survey ceilings only).

Sectarian organization/sectarian child care – care provided by any organization or provider that engages in religious conduct or activity or that seeks to maintain a religious identity in some or all of its functions.

Severely handicapped children – children who require instruction and training in programs serving pupils with the following profound disabilities: autism, blindness, deafness, severe orthopedic impairments, serious emotional disturbance or severe mental retardation. These children may be assessed by public school special education staff, regional center staff or another appropriately licensed clinical professional.

Social service agency – an agency, which, in the course of day-to-day business, provides personal counseling, personal or group therapy using personnel properly, certified or licensed under California law. Examples of such agencies include county human and social services departments, county mental health departments, Family Service Association of America and Children's Home Society.

Start-up allowance – reimbursement of up to 15 percent of a new or expansion contract amount for certain costs incurred as described in Education Code Section 8275 for providing services to additional children. The start-up allowance is a service level exemption and not additional dollars.

State median income – the most recent median income for California families as determined by the State Department of Finance.

Subsidized care – services to eligible children funded by child care and development contracts with the California Department of Education.

Total countable income – income that does not include the following: (1) earnings of a child under the age of 18; (2) loans, grants and scholarships obtained under conditions that preclude their use for current living costs; (3) grants or loans to students for educational purposes; made or insured by a state or federal agency; (4) allowances received for uniforms or other work-required clothing, food and shelter; (5) business expenses for self-employed family members and (6) income of a recipient of federal supplemental security income benefits pursuant to Title XVI of the Federal Social Security Act (42 USC Sec. 1381 et seq.) And state supplemental program benefits pursuant to Title XVI of the Federal Social Security Act and Chapter 3 (commencing with Section 12000) of part 3 of Division 9 of the Welfare and Institutions Code.

Total expenditures – all costs for the provision of subsidized services under the contract and any nonsubsidized services which are provided in commingled classrooms.

Trust Line – a registry established by the Department of Justice of license-exempt providers of child care and development services upon determination that the provider has no reported criminal convictions or substantiated cases of child abuse.

Use allowance – an alternate method for claiming the use of the contractor's assets as a cost when depreciation methods are not used. A use allowance cannot be claimed on land or assets purchased with contract funds or on assets for which depreciation has been claimed. Use allowance for buildings and improvements is computed at an annual rate not to exceed 2 percent of acquisition costs; for equipment it is computed at an annual rate not to exceed 6-2/3 percent of acquisition costs.